ISLE OF WIGHT COUNCIL

DRAFT STATEMENT OF ACCOUNTS

2010-11

(UNAUDITED)

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CONTENTS (Continued)

Explanatory Foreword

1. Introduction

This foreword provides a general guide to the main statements that make up the full Statement of Accounts and a summary of the Isle of Wight Council's financial performance for 2010-11. It fulfils a similar purpose to a Directors' report in company accounts and aims to provide a concise and understandable guide for the reader of the accounts, by highlighting the most significant aspects of an authority's financial performance, year end financial position and cash flows. Its purpose is not to comment on the policies of the authority but it does give factual details of strategic objectives and spending priorities where these provide a context to reporting on financial performance.

In all aspects of the Statement of Accounts and in this foreword, the Isle of Wight Council has attempted to be clear, factual and transparent. Whilst we have tried to remove technical jargon where possible, much of the format, terminology and presentation of these accounts is prescribed by accounting requirements, so a detailed glossary is provided at the end of the foreword to assist the reader.

The Council also publishes a summary of the accounts each in year in its annual which links the expenditure on service areas with performance and service delivery. This will be available on the council's website iwight.com

2. Guide to the Main Statements included in the Accounts

The Statement of Accounts details the financial statements as follows:

2.1 Statement of Accounting Policies

This explains the policies adopted in preparing the Accounts, which are based on the relevant Codes of Practice applicable to local authorities.

2.2 Statement of Responsibilities

This sets out the respective responsibilities of the Council and the Strategic Director of Resources for the Accounts.

2.3 Movement in Reserves Statement

This shows the movement in the year on the different reserves held by the Council analysed into 'usable reserves' (those that can be applied to fund expenditure or reduce taxation) and other reserves. The Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

2.4 Comprehensive Income and Expenditure Statements

This statement shows the accounting costs in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. In 2010-11, the Cost of Services shows expenditure as £368 million and income as £220 million, resulting in a net cost of £148 million. Adding in items such as precepts paid and interest payable and deducting items such as interest receivable, Council Tax income and non-specific grant income, results in a surplus on the Provision of Services of £52 million. This surplus includes a credit of £52.5 million as a one-off accounting adjustment relating to the change in the method that pension increases are calculated from RPI to CPI.

2.5 Balance Sheet

The Balance Sheet includes information on the Council's assets and liabilities. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. As stated above, these reserves are categorised as either usable or unusable reserves. The Council's net worth at 31 March 2011 was £5.685 million.

2.6 Cash Flow Statement

This statement shows changes in cash and cash equivalents of the Council during the reporting period. This provides a summary of the inflows and outflows of cash for revenue and capital purposes. Internal transfers within the authority are therefore excluded from this statement.

2.7 Collection Fund

This summarises the transactions of the Council as billing authority in relation to Council Tax and National Non-Domestic Rates and illustrates the way in which the precepts have been distributed to the Isle of Wight Council and the Hampshire Police Authority.

Guide to the Main Statements included in the Accounts (continued)

2.8 Firefighters' Pension Fund

The purpose of this statement is to provide a basis for demonstrating the balance of cash-based transactions taking place over the year and for identifying the arrangements needed to close the balance for that year.

2.9 Isle of Wight Council Pension Fund

This summarises the income and expenditure of the Pension Funds and provides information about the financial position, performance and financial adaptability of the funds.

3. Summary of Financial Performance for 2010-11

3.1 Revenue Income and Expenditure

There have been a number of significant pressures during 2010-11 in relation to the revenue budget around increasing service demands, decreasing income from fees and charges and in-year reductions to grants received from central government.

These have been managed and responded to through a robust monitoring process involving regular reports to officers and members and star chamber meetings at key points in the year. Strong financial management throughout the year has enabled these pressures and the in-year reductions to the Government grant allocations, to be contained within the budget and in overall terms the Council underspent against the original budget by £0.787 million. This position is shown in the Movement in Reserves Statement.

The key pressure areas on the budget were as follow:-

- Adult Social Care packages – an overspend of £4.061 million
- Parking income shortfall – an under-recovery of income of £1.030 million
- Children's Placements – an overspend of £0.559 million
- School Transport – an overspend of £0.592 million

A number of control measures were introduced during the year to help offset the budget pressures. The impact of those control measures is shown below:-

- Recruitment control – an Authorisation Panel was established during the year to control recruitment costs and by the end of the financial year vacancy management savings of £3.384 million had been identified across the Council
- Performance and Communications – a review of Performance and Communications activities across the Council achieved budget savings of £0.293 million during 2010-11.
- Procurement and Contracts – a review of existing contractual arrangements and a moratorium on non-essential supplies and services delivered savings of £1.353 million during the year.
- Capital Financing costs – savings in interest paid due to re-profiling of the capital programme and further savings in the Minimum Revenue Provision for the repayment of external debt meant that the Council was able to manage its capital programme without increasing its external debt. This resulted in savings at the year-end of £3.715 million.

Summary of Financial Performance for 2010-11 (continued)

A comparison with spending in the previous year is shown in the Comprehensive Income and Expenditure Statement, but actual performance against expenditure budgets is shown below. These figures relate only to ‘cash limited’ management accounts which exclude accounting adjustments relating to items such as retirement benefit costs and depreciation charges.

	Net Expenditure Budget £000s	**Net Expenditure Actual £000s**	**(Under)/Over spend £000s**
Chief Executive	1,696	1,618	(78)
Director of Resources	15,040	14,339	(701)
Director of Economy & Environment	31,681	30,367	(1,314)
Director of Community Services	47,172	50,214	3,042
Director of Children & Young People	19,824	20,706	882
Corporate accounts	5,245	6,311	1,066
Net Service Expenditure	120,658	123,555	2,897
Net finance & investment expenditure	10,266	6,582	(3,684)
Other operating expenditure	1,540	1,540	0
	132,464	**131,677**	**(787)**
Formula Grant	(61,397)	(61,397)	
Council Tax	(71,067)	(71,067)	
Net underspend	**0**	**(787)**	
Opening General Fund Balance	**(7,273)**	**(7,273)**	
Net underspend	**0**	**(787)**	
Closing General Fund Balance	**(7,273)**	**(8,060)**	

The summary above shows the position after applying year end carryovers. An underspend of £0.787 million has been added to the General Fund Balance which at 31 March 2011 totals £8.060 million.

3.2 Capital Income and Expenditure

Capital spending can generally be defined as spending which creates or enhances assets that have a life of more than one year. In 2010-11, the council spent £31.263 million on capital assets analysed as follows:

	Revised Budget £000s	**Actual Expenditure £000s**	**Underspend £000s**
Director of Economy & Environment	13,933	11,707	(2,226)
Chief Executive (including Schools & Learning)	19,164	12,761	(6,403)
Director of Community Services	4,838	3,533	(1,305)
Director of Resources	5,195	3,262	(1,933)
Total Expenditure	**43,130**	**31,263**	**(11,867)**

This was financed from the following sources:	
Capital Receipts	1,454
Capital Grants & Contributions	14,461
Revenue Expenditure funded by Capital under Statute (REFCUS)	2,527
Increase in Capital Financing Requirement	12,821
Total Financing	**31,263**

This was £11.867 million less than the revised budget of £43.130 million, but a significant improvement in terms of spend to budget from previous years. However, many capital projects are delivered over a period of years and spend can therefore be spread across financial years. Capital underspends are therefore available to be carried forward to fund expenditure which will be incurred in future years (known as slippage).

The principal areas where slippage has occurred are as follows:

- Economy and Environment – Highways and leisure schemes. Highways slippage relates to highways maintenance and structures projects which were contractually committed in 2010-11, but were not complete at year-end. The leisure facilities improvement scheme was reprofiled across the next three years to reflect the work schedule developed with consultants.

- Schools and Learning – The large capital budget associated with the Schools reorganisation and Cowes High School One School Pathfinder projects were re-profiled to reflect changed project plans developed with the contractors appointed during 2010-11. There is also slippage on Schools Devolved capital schemes.

- Community Services – Housing projects slippage relates mainly to grants given to householders where funds allocated during 2010-11 will not be spent until 2011-12. In this case, the scheduling of works is the responsibility of the householder and the Council has limited influence on the timing of the grant payments.

- Resources – Transformation projects and ICT infrastructure improvements are part of the wider property rationalisation plans and delays in implementation have enabled better coordination of the various work streams to ensure best value for money.

3.3 Material Items of Income, Expenditure, Assets and Liabilities

The Chancellor's Emergency Budget on 22 June 2010 announced that pension increases would in future be based on CPI rather than RPI. This has resulted in the value of liabilities falling in the Balance Sheet and past service credits of £46.786 million for the Local Government Scheme and £5.700 million for the Fire-fighters' Pension Scheme appearing in the Surplus or Deficit on Provision of Services after CPI adjustment in the Comprehensive Income & Expenditure Statement. These credits have been treated as one-off adjustments in 2010-11, in line with CIPFA/Audit Commission recommendations. The Pensions liability appearing under Other Long-term Liabilities has also reduced due to positive asset returns and falling long term inflation expectations.

3.4 Pensions Liability

Details of the Council's pension liability calculated under IAS19 are shown at Note 46 of the notes to the accounts. This includes both the Local Government and the Fire-fighters' Pension Schemes. Due to the valuation methodologies and the derivation of the main financial assumptions required, IAS19 is likely to produce volatile results from year to year. The IAS19 figure is a snapshot at a given point in time and the results have been particularly volatile during the extreme fluctuations in the economic climate experienced during the last three years.

The Local Government Pension Scheme is in deficit by £117.284 million compared with what is needed to pay the pensions of the current scheme members, and the effect is to reduce the overall net worth of the Council by that amount. However, statutory arrangements for funding the deficit will be made good by increased contributions over the remaining working life of employees. A truer reflection of a pension fund's actual position comes from the longer-term triennial actuarial valuation which was most recently held as at 31 March 2010 and will next take place as at 31 March 2013. The Fire-fighter's Pension Scheme is in deficit by £47.600 million and this also reduces the overall net worth of the Council by that amount. This scheme is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. In-year deficits on the Fire-fighters' Pension Scheme are reimbursed by Government grant.

3.5 Changes to accounting policies

In preparing these accounts the Council has complied with the Code of Practice on Local Authority Accounting in the United Kingdom which defines proper accounting practices for all Local Authorities. The Code of Practice is based on International Financial Reporting Standards (IFRS) which have been implemented for the first time in 2010-11. The move to an IFRS based Code of Practice from the previous UK GAAP basis results in a number of significant changes in accounting practice which means that some details in these accounts are treated or presented differently to previous years.

The detail of these changes is reported in the notes to the financial statements but in summary significant changes are as follows:

- Grants and contributions for capital purposes are recognised as income immediately rather than being deferred and released to revenue to match depreciation.
- Similarly, grants and contributions for revenue purposes are recognised as income in the Comprehensive Income and Expenditure Statement unless there conditions which would require them to be repaid.
- The main financial statements have changed, and there are additional requirements regarding segmental reporting.
- There is a greater emphasis on component accounting for capital assets and a greater emphasis on derecognising parts of an asset that are replaced.
- Property leases are classified and accounted for as separate leases of land and buildings
- Local authorities also need to assess whether other contract arrangements contain the substance of a lease.
- Investment properties are measured at fair value, with gains and losses recognised in the Surplus or Deficit on the Provision of Services rather than through the Revaluation Reserve.
- Impairment losses are taken initially to the Revaluation Reserve to the extent that there is a balance on that reserve relating to the specific asset.
- The Code introduces a new classification of non-current assets held for sale. Specific accounting criteria applies to this classification.
- All employee benefits are accounted for as they are earned by the employee. This requires year-end accruals for items such as holiday pay.

3.6 Changes to the Council's functions

During the second half of 2010-11 and continuing into 2011-12, there have been significant changes to the structure of the Council and to the range and level of the services that are provided. This has been prompted by the reductions in grant funding from the Government which were announced in October 2010 along with other budgetary pressures associated with increased service demand in key areas such as Adults and Children's Social Care. Major changes are being implemented across a range of Council services in order to achieve savings of £17.833 million in 2011-12 followed by a further £3.366 million in 2012-13, while also directing resources into areas which support the Council's strategic priorities.

3.7 Borrowing and Investments

At the 31 March 2011, the Council had outstanding loans of £114.007 million from the Public Works Loan Board (PWLB), which are at fixed rates of interest. The PWLB allows debt to be rescheduled or repaid prior to maturity, although this generally necessitates paying a premium. A further £9 million of the Council's external debt is through 'Lender Option, Borrower Option' (LOBO) loans, where the lenders have the option to increase the interest rate each year. Were the lenders to exercise this option, the Council has the right to repay the loans without penalty.

The Council has the ability to borrow further money from the PWLB each year to fund capital projects, although during 2010-11 no further loans were raised. The most recent loan taken from the PWLB was in 2005 and the Council has used internal resources and grants in place of external borrowing.

Total borrowing (including temporary and long term borrowing) is analysed as follows:

	Debt at 31 March 2010 (excluding accrued interest)	**Loans raised during 2010-11**	**Loans repaid during 2010-11**	**Interest accrued at 31 March 2011**	**Debt at 31 March 2011**
	£000	**£000**	**£000**	**£000**	**£000**
PWLB loans	112,888	0	0	1,119	114,007
LOBO loans	9,000	0	0	135	9,135
Other temporary borrowing	546	920	(38)	0	1,428
Total	122,434	920	(38)	1,254	124,570

Other temporary borrowing consists of balances being held on behalf of the Pension Fund and Trust Funds.

Borrowing limits are approved annually by Full Council and for 2010-11 these were approved in February 2010.

The level of borrowing at 31 March 2011 should be considered in the context of the fair value of the Council's Property, Plant and Equipment (£340 million) (see Note 13) and the Capital Financing Requirement at 31 March 2011 (£190 million) (see Note 40). In addition, the Council has used internal resources to the value of £52 million to fund the capital programme over a period of years, thereby saving potential interest payments on external borrowing.

At 31 March 2011, the Council held short-term investments of £12.160 million. The Council manages its investments in-house and invests with institutions on the Council's approved lending list. During 2010-11, lending has been restricted to Banks, Other Local Authorities and Central Government's Debt Management Office.

3.8 Sources of Funds Available for Capital Investment

The level of capital investment the Council plans for future years is dependent on the resources available. These are essentially direct grants and support for specific schemes from government and other parties, which have been significantly reduced from 2011-12. Other sources of finance such as Capital Receipts from disposal of assets are difficult to plan for with any degree of certainty due to an unpredictable property market. Prudential borrowing is dependent on the affordability of the revenue costs of repayment and interest costs.

This uncertainty over the availability of capital resources has resulted in the investment in the leisure management improvement programme being reduced and the rebuild of the Newport and Ventnor Fire Stations being put on hold.

Significant expenditure will be incurred in 2011-12 on the Cowes High School One School Pathfinder project and on Schools reorganisation generally. Capital grants that have previously been received towards the cost of these projects is included in the Capital Grants Receipts in Advance on the Balance Sheet.

The capital investment programme and funding sources can therefore be summarised as follows:

Capital Programme Summary	**2011-12 £000**	**2012-13 £000**	**2013-14 £000**
Schools financed by supported borrowing, capital grants and capital receipts	39,952	12,082	5,398
Local Transport Programme financed by Capital Grant	3,930	3,625	3,442
Invest to Save accommodation financed by capital receipts/savings	5,067	1,750	0
Total Funded Programme	**48,949**	**17,457**	**8,840**
Other Service Areas:			
Leisure Facility Improvement	3,436	2,611	0
Housing	2,940	1,023	1,011
Cowes Floating Bridge	0	0	3,000
Waste Contract/Landfill expansion	0	0	5,000
Other Schemes	7,036	3,204	2,888
Total Other Schemes to be funded	**13,412**	**6,838**	**11,899**
Financed from:			
Prudential Borrowing	(9,773)	(4,940)	(2,049)
Capital Receipts	(1,900)	(1,000)	(9,000)
Leasing and Revenue Contributions	(127)	(155)	(165)
Capital Grants	(1,612)	(743)	(685)
Total Financing	**(13,412)**	**(6,838)**	**(11,899)**
Total Gross Programme	**62,361**	**24,295**	**20,739**

3.9 Impact of the current climate

In agreeing the budget for 2010-11 on 24 February 2010, the Council agreed:

- the medium term financial strategy,
- the level of investment in service improvement and improved efficiency of some £133 million over the following 3 years,
- the level of savings to be achieved in 2010-11, totalling £13.430 million
- a council tax increase for 2010-11 of 2.5%.

This was set against a backdrop of recession and constrained resources including a fall in income from fees and charges, reduced interest on balances and reserves, an increase in service pressures, a continuing shortfall in concessionary bus fare scheme funding and the annual impact of Revenue Support Grant damping.

Following this, in June 2010, the new coalition government issued an emergency budget which announced a national target of £6.2bn of in-year savings. This equated to an overall reduction of £3.2 million of Government grant funding for the Isle of Wight Council, already three months into the financial year in question. The means by which the Council responded to this are shown in section 3.1 of this foreword.

The announcement also came with an expectation that more significant savings would be made from 2011-12 and future years. This was set out in the Comprehensive Spending Review in October 2010, which in overall terms outlined a significant reduction in Revenue Support Grant and other grants that local authorities receive.

Impact of the current climate (continued)

In cash terms there will be an average reduction of some 19% over the four years and, after allowing for government assumptions for inflation and increased need, the real terms reduction is calculated to be 26%. A significant factor however is that the reductions are not spread evenly over the four years and are frontloaded to the first two years. Whereas a degree of frontloading was expected, the severity of it being nearly 50% in year one and some 75% by year two has made the challenge even greater.

Locally, the Council has also been under increasing financial pressures from increases in service demand estimated at around £6.5 million during 2010-11, particularly in adult social care and children's placements and safeguarding costs. The risks in these areas continue into 2011-12 when, allowing for inflation, increased service costs and identified need, the net impact on the Council's budgets is shown below:

	2011-12 £000		2012-13 £000	
Additional costs/service need	7,400		11,900	
Current grant base	83,300		83,300	
	90,700		95,200	
Grant per settlement	71,900		67,000	
Real terms grant loss	**18,800**	**-20%**	**28,200**	**-30%**
Council Tax grant and base	2,200		4,350	
Health Transfer	2,130		2,050	
Net impact on budget	**14,470**	**-16%**	**21,800**	**-23%**

3.10 Main variances on the Comprehensive Income and Expenditure Statement

A comparison of the 2010-11 figures with the 2009-10 equivalents in the Comprehensive Income and Expenditure Statement shows some significant in-service variances, although the net impact on the Cost of Services line is a reduction of £2.446 million. The principal factors which have contributed to these variances are as follows:-

- Cultural, Environmental, Regulatory & Planning Services:- a reduction in net expenditure of £5.579 million. In 2009-10 impairments of £4.861 million were charged in respect of the Waste Disposal Plant. This was due to a reduction in the carrying value of the premises, resulting from a change in valuation basis from historical to current value. Consequently, the gross expenditure total for 2009-10 is higher than for 2010-11.

- Highways & Transport Services:- a reduction in net expenditure of £4.639 million. In 2009-10 aborted highways related capital schemes of £3.499 million were charged resulting in a higher gross expenditure total for 2009-10 than for 2010-11. In addition, the 2010-11 gross income total includes the one-off 'pot-hole' grant (£1.073 million).

- Fire & Rescue Services:- an increase in net expenditure of £1.268 million. The 2009-10 gross expenditure total included a higher credit IAS19 Retirement Benefit adjustment than that included in the 2010-11 total.

- Housing Services:- an increase in net expenditure of £3.234 million. The reduction in gross income between 2009-10 and 2010-11 is due to the treatment of the Supporting People Grant. This changed from being a specific grant credited to the service, to Area Based Grant which is a non-ringfenced grant and included in Taxation & non-specific grant income shown below the Cost of Services.

- Non-Distributed Costs:- an increase in net expenditure of £1.848 million. This is due to a past service adjustment on the Local Government Pension Scheme (separate from the adjustment made for the change from RPI to CPI for assessing pension liabilities).

3.11 Relationship between Statement of Accounts and other financial information

The Accounts and Audit (Amendment No.2) (England) Regulations 2009 introduced a new legal requirement to increase transparency and accountability in Local Government for reporting remuneration of senior employees. These regulations amended the existing requirement to disclose the numbers of employees whose total remuneration was £50,000 or more in the financial year from bands of £10,000 to bands of £5,000. In addition, the regulations introduced a new requirement to disclose individually by way of job title the total payments made to senior employees whose salary exceeded £50,000 per year. Where the salary exceeded £150,000 per year, the disclosure must include the name of the senior officer.

During 2010-11 the Government also announced its expectation that all local authorities publish payments made to suppliers for goods and services and grants of over £500. The Council has begun to publish this information in quarterly reports on the website.

Conclusion

The Accounts and Audit (England) Regulations 2011 require the responsible financial officer to sign and date the Statement of Accounts by 30 June. Following the annual audit of the accounts, the Statement of Accounts is required to be approved by the Council sitting as a whole, or by a committee with delegated powers to make such a decision, by 30 September.

A summary of the Statement of Accounts will be published with the annual report on performance which will be available on the Council's website: iwight.com

The Council's statutory responsibilities regarding these accounts are laid out in the section entitled 'Statement of Responsibilities for the Statement of Accounts' on page 15.

David Burbage
Strategic Director of Resources

Glossary of terms

Accounting Policies
The principles, bases, conventions, rules and practices that specify how the effect of transactions and other events are to be reflected in the financial statements.

Accruals concept
Income and expenditure are recognised as they are earned or incurred, not as money is paid or received.

Amortisation
An accounting technique of recognising a cost or item of income in the Comprehensive Income and Expenditure Statement over a period of years rather than when the initial payment is made. Its purpose is to charge/credit the cost/income over the accounting periods that gain benefit for the respective item.

Capital Charge
A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services (eg depreciation).

Capital Expenditure
Expenditure that is incurred to create or add value to a fixed asset.

Capitalised Pension cost
An additional amount payable by a service to the Pension Fund where an employee who is below pensionable age has taken early retirement following redundancy without any actuarial reduction being made to their pension. Minimum age limits apply and granting is at the discretion of the employer. Under statute and local arrangement, the amounts payable to the Pension Fund can be spread over a period not exceeding five years.

Capital Receipt
The proceeds from the sale of capital asset which, subject to various limitations, can be used to finance capital expenditure, be invested, or repay outstanding debt on assets originally financed through borrowing.

Cash and Cash Equivalents
Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature within 24 hours from the date of acquisition.

Collection Fund
A fund administered by the Council which records receipts from Council Tax and National Non-Domestic Rates, and payments to the precepting bodies (Isle of Wight Council and the Hampshire Police Authority).

Community Assets
Assets that the Council intends to hold indefinitely and which may have some restrictions on their disposal. Eg parks and historic buildings.

Consistency concept
This concept requires that there should be a consistent method of accounting treatment of like items within each accounting period and from one accounting period to the next.

Council Tax
A banded property tax that is levied on domestic properties. The banding is based on property values at as 1991.

Credit Risk
The possibility that one party to a financial instrument will fail to meet their contractual obligation, causing a loss to the other party.

Creditor
An amount owed by the Council for work done, goods received or services rendered, but for which no payment has been made.

Current Assets
Asset expected to be realised within twelve months after the reporting period (including cash or cash equivalents).

Debtors
An amount owed to the Council for work done, goods supplied or services rendered, but for which no payment has been received.

Defined Benefit Scheme
A pension or other retirement benefit scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined Contribution Scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation
The measure of the wearing out, consumption or other reduction in a fixed asset either as a result of its use, ageing or obsolescence.

Depreciated Replacement Cost
A valuation measure where insufficient market-based evidence of fair value is available because an asset is specialised and/or rarely sold.

Fair Value
The amount that would be paid for an asset in its existing use. This is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction, after proper marketing.

Finance Lease
An agreement that transfers all the risks and rewards of ownership of an asset. The payments usually cover the full cost of the asset together with a return for the cost of finance. Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease and is matched by a liability for the obligation.

Financial Instrument
A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term covers both financial assets and financial liabilities and includes both the most straightforward financial assets such as trade receivable (debtors) and trade payable (creditors) and the most complex ones such as derivatives.

General Fund
The total services of the Council except for the Collection Fund, the Isle of Wight Council Pension Fund and the Fire-fighters' Pension Fund.

Impairment
A reduction in the value of a non-current asset below its carrying amount on the Balance sheet.

Intangible Asset
Assets that do not have a physical substance but are identified and controlled by the entity through custody or legal rights. Examples of intangible assets are patents and software licences.

Investment Property
Property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both.

Materiality
An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distorted view given by the financial statements.

Net Book Value
The amount at which assets are included in the Balance Sheet ie their historical cost or current value less the cumulative amount provided for depreciation and impairment.

National Non-Domestic Rates (Business Rates)
A levy on business properties based on a Government determined rate in the pound which is applied to a rateable value of the property. Local Authorities collect the sums due, but the proceeds are paid into a National Pool and sums are redistributed back to authorities as part of the formula grant calculations.

Non-Current Assets
An asset held by the authority for a period greater than one year and is not expected to be disposed of within one year.

Operating Lease
An agreement in which the Council derives the use of an asset in exchange for rental payments, although the risks and rewards of ownership of the asset are not substantially transferred to the Council.

Precepts
The amount levied by another body, such as the Hampshire Police Authority, that is collected by the Council on their behalf.

Private Finance Initiative
A contract in which the private sector is responsible for supplying services that are linked to the provision of a major asset which previously had been provided by the Council. The Council will pay for the provision of this service, which is linked to availability, performance and levels of usage.

Property, Plant and Equipment
Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year.

Provisions
Amounts charged to revenue during the year for costs with uncertain timing, although a reliable estimate of the cost involved can be made.

Prudence concept
This concept requires that revenue is not anticipated until realisation can be assessed. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of the information available.

Public Works Loan Board (PWLB)
A government agency which provides loans to authorities at favourable rates.

Reserves
Specific amounts can be set-aside as earmarked reserves for future policy purposes or to over contingencies. Certain reserves are maintained to manage the accounting process for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources.

Related Party
The definition of a related party is dependent on the situation, although key indicators are if:

- One party has direct or indirect control of another party
- One party has influence over the financial and operating policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests.

Remuneration
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than cash. Pension contributions payable by either the employer or employee are excluded.

Revenue Expenditure
The cost of running local authority services within the financial year, for example staffing costs, supplies and transport.

Revenue Support Grant (RSG)
This a Government grant paid to the Council to finance general expenditure. It is based on the Government's assessment of how much an authority needs to spend in order to provide a standard level of service. It is calculated along side the Non-Domestic Rate redistribution and is collectively referred to as Formula Grant.

Specific Government Grants
These are designed to aid particular services and may be venue or capital in nature. They may have specified conditions attached to them which determine that they can only be used to fund expenditure which is incurred in pursuit of defined objectives (known as ring-fenced grants).

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's responsibilities

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director of Resources;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

The duties of the Chief Financial Officer are carried out by the Strategic Director of Resources.

The Strategic Director of Resources' responsibilities

The Strategic Director of Resources is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Strategic Director of Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- complied with the local authority Code.

The Strategic Director of Resources has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts for the year ended 31 March 2011 required by the Accounts and Audit (England) Regulations 2011 is set out on pages 16 to 137.

I further certify that the Statement of Accounts present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2011.

D Burbage

Strategic Director of Resources Date: 30/06/2011

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be used to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, although in 2010-11 this includes a large credit adjustment in respect of a change in the basis for calculating pension increases from RPI to CPI. More details of the cost of providing the Council's services are shown in the Comprehensive Income and Expenditure Statement, which are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the balance on the statutory General Fund before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance £000	**Earmarked General Fund Reserves £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Total Usable Reserves £000**	**Unusable Reserves £000**	**Total Authority Reserves £000**
Balance at 31 March 2009 brought forward	**11,515**	**18,303**	**0**	**56**	**29,874**	**(14,455)**	**15,419**
Movement in Reserves during 2009-10							
Surplus or (deficit) on the provision of services	(25,799)	0	0	0	(25,799)	0	(25,799)
Other Comprehensive Income & Expenditure	0	0	0	0	0	(104,174)	(104,174)
Total Comprehensive Income & Expenditure	**(25,799)**	**0**	**0**	**0**	**(25,799)**	**(104,174)**	**(129,973)**
Adjustments between accounting basis & funding basis under regulations (Note 8)	18,670	0	0	604	19,274	(19,274)	0
Net Increase/Decrease before Transfers to Earmarked Reserves	**(7,129)**	**0**	**0**	**604**	**(6,525)**	**(123,448)**	**(129,973)**
Transfers to/from Earmarked Reserves (Note 9)	2,887	(2,887)	0	0	0	0	0
Increase/Decrease in 2009-10	**(4,242)**	**(2,887)**	**0**	**604**	**(6,525)**	**(123,448)**	**(129,973)**
Balance at 31 March 2010 carried forward	**7,273**	**15,416**	**0**	**660**	**23,349**	**(137,903)**	**(114,554)**

MOVEMENT IN RESERVES STATEMENT (CONTINUED)

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2010 brought forward	**7,273**	**15,416**	**0**	**660**	**23,349**	**(137,903)**	**(114,554)**
Movement in Reserves during 2010-11							
Surplus or (deficit) on the provision of services	52,061	0	0	0	52,061	0	52,061
Other Comprehensive Income & Expenditure	0	0	0	0	0	68,178	68,178
Total Comprehensive Income & Expenditure	**52,061**	**0**	**0**	**0**	**52,061**	**68,178**	**120,239**
Adjustments between accounting basis & funding basis under regulations (Note 8)	(52,264)	0	0	(29)	(52,293)	52,293	0
Net Increase/Decrease before Transfers to Earmarked Reserves	**(203)**	**0**	**0**	**(29)**	**(232)**	**120,471**	**120,239**
Transfers to/from Earmarked Reserves (Note 9)	990	(990)	0	0	0	0	0
Increase/Decrease in 2010-11	**787**	**(990)**	**0**	**(29)**	**(232)**	**120,471**	**120,239**
Balance at 31 March 2011 carried forward	**8,060**	**14,426**	**0**	**631**	**23,117**	**(17,432)**	**5,685**

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

This statement summarises the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from Council Tax and other revenue resources. Authorities raise income to cover expenditure in accordance with regulations; this may be different from the accounting cost. The net reserves are shown in the Movement in Reserves Statement.

2009-10				**2010-11**		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		**Gross Expenditure £000**	**Gross Income £000**	**Net Expenditure £000**
141,370	(105,695)	35,675	Education & Children's Service	**151,753**	**(117,468)**	**34,285**
57,175	(12,062)	45,113	Adult Social Care	**60,434**	**(12,104)**	**48,330**
43,857	(10,033)	33,824	Cultural, Environmental, Regulatory & Planning Services	**38,125**	**(9,880)**	**28,245**
25,091	(6,638)	18,453	Highways & Transport Services	**22,649**	**(8,835)**	**13,814**
6,960	(202)	6,758	Fire & Rescue Services	**8,328**	**(302)**	**8,026**
64,844	(60,483)	4,361	Housing Services (including Benefits)	**63,080**	**(55,485)**	**7,595**
17,143	(15,719)	1,424	Central Services to the Public	**16,979**	**(15,890)**	**1,089**
4,525	(81)	4,444	Corporate & Democratic Core	**4,398**	**(24)**	**4,374**
853	0	853	Non-Distributed costs	**2,701**	**0**	**2,701**
361,818	(210,913)	150,905	**Cost of Services**	**368,447**	**(219,988)**	**148,459**
0	0	0	Pensions Funds:- adjustment for change to accounting assumption for CPI	**(52,486)**	**0**	**(52,486)**
1,291	(2)	1,289	Other operating expenditure (Note10)	**3,092**	**0**	**3,092**
33,863	(13,344)	20,519	Financing & investment income & expenditure (Note 11)	**34,388**	**(23,074)**	**11,314**
0	(146,914)	(146,914)	Taxation & non-specific grant income (Note 12)	**0**	**(162,440)**	**(162,440)**
396,972	(371,173)	25,799	**(Surplus)/Deficit on Provision of Services after Pension Funds CPI adjustment**	**353,441**	**(405,502)**	**(52,061)**
		(16,542)	(Surplus)/Deficit on revaluation of Property, Plant & Equipment			**(6,806)**
		120,716	Actuarial gains/losses on pension assets/liabilities			**(61,372)**
		104,174	**Other Comprehensive Income & Expenditure**			**(68,178)**
		129,973	**Total Comprehensive Income & Expenditure**			**(120,239)**

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities held by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

1 April 2009	31 March 2010			31 March 2011
£000	£000		Notes	£000
314,639	326,452	Property, Plant & Equipment	13	**339,676**
6,896	3,814	Investment Property	14	**6,607**
812	1,058	Intangible Assets	15	**1,033**
11	11	Long Term Investments	16	**11**
94	88	Long Term Debtors	16	**64**
322,452	331,423	**Long Term Assets**		**347,391**
8,958	5,401	Short-term Investments	16	**12,160**
0	450	Assets Held for Sale	20	**366**
575	593	Inventories	17	**549**
18,472	23,280	Short Term Debtors	18	**20,821**
6,911	5,086	Cash and Cash Equivalents	19	**9,251**
34,916	34,810	**Current Assets**		**43,147**
(9,008)	(7,131)	Bank Overdrawn	19	**(10,964)**
(14,035)	(10,800)	Short Term Borrowing	16	**(12,682)**
(26,398)	(27,376)	Short Term Creditors	21	**(27,338)**
(4,005)	(3,223)	Provisions	22	**(3,929)**
(53,446)	(48,530)	**Current Liabilities**		**(54,913)**
(7,425)	(6,934)	Long Term Creditors	16	**(5,601)**
(112,888)	(112,888)	Long Term Borrowing	16	**(111,888)**
(145,488)	(269,664)	Other Long Term Liabilities	16	**(165,059)**
(22,702)	(42,771)	Capital Grants Receipts in Advance	37	**(47,392)**
(288,503)	(432,257)	**Long Term Liabilities**		**(329,940)**
15,419	(114,554)	**Net Assets**		**5,685**
29,874	23,349	Usable Reserves	23	**23,117**
(14,455)	(137,903)	Unusable Reserves	24	**(17,432)**
15,419	(114,554)	**Total Reserves**		**5,685**

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the Council.

2009-10		**2010-11**
£000		**£000**
(25,799)	Net Surplus/(Deficit) on the provision of services	**52,061**
31,088	Adjustments to net surplus or deficit on the provision of services for non-cash movements	**(22,629)**
(13,421)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**(18,392)**
(8,132)	Net cash flows from Operating Activities (Note 25)	**11,040**
14,202	Investing Activities (Note 26)	**(10,925)**
(6,018)	Financing Activities (Note 27)	**217**
52	Net increase of decrease in cash & cash equivalents	**332**
(2,097)	Cash & cash equivalents at the beginning of the reporting period	**(2,045)**
(2,045)	**Cash & cash equivalents at the end of the reporting period (Note 19)**	**(1,713)**

NOTES TO THE ACCOUNTS

1. Summary of Significant Accounting Policies

i) General Principles

The Statement of Accounts summarises the Council's transactions for the 2010-11 financial year and its position at the year-end of 31 March 2011.The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2010-11 and the Best Value Accounting Code of Practice 2010-11,* supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather that when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii) Cash and Cash Equivalents

Cash and cash equivalents are represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature within 24 hours from the date of acquisition.

iv) Exceptional items

When items of income or expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, dependant on how significant the items are to an understanding of the Council's financial performance.

Summary of Significant Accounting Policies (continued)

v) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vi) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there can be no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (MRP) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vii) Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those expected to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonus and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the end of the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rate applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Summary of Significant Accounting Policies (continued)

Employee Benefits (Continued)

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or the pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movements in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits paid to the pension fund and pensioners and any such amounts payable but unpaid at year-end.

Post Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Local Government Pension Scheme, administered by the Isle of Wight Council.
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Fire-fighters' pension scheme, which is an unfunded scheme administered by the Council and there are no investment assets held against the liabilities.

Both the Local Government and Teachers' schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's & Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Isle of Wight Council pension fund attributed to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% based on the indicative rate of return on a high quality corporate bond equal to the gross redemption yield on the iboxx Sterling Corporates Index, AA over 15 years.
- The assets of the Isle of Wight Council pension fund attributed to the Council are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value
- The change in the net pensions liability is analysed into seven components:
    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

Summary of Significant Accounting Policies (continued)

Employee Benefits (Continued)

- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the Isle of Wight Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to Retirement Benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace or them with debits for the cash paid to the pension fund and pensioners and any amounts payable to the fund but unpaid at the year-end. The negative balance on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

viii) Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the event and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

ix) Financial Instruments

Financial Liabilities

Financial liabilities are derecognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally derecognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

Where premiums and discounts are charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market

- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Loans and Receivables

Loans and receivables are derecognised in the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The Council made a number of loans to voluntary organisations in the past at less than market rates (soft loans). A review of soft loans has been undertaken and the amounts involved are not considered to be material for the purposes of the 2010-11 Statement of Accounts.

Available-for-sale Assets

Available-for-sale assets are derecognised in the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is derecognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously derecognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Summary of Significant Accounting Policies (continued)

x) Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:-

- the Council will comply with the conditions attached to the payment, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are nor credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure. Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

xi) Intangible Fixed Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Summary of Significant Accounting Policies (continued)

Intangible Fixed Assets (continued)

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the authority can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Cpital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xii) Interests in Companies and Other Entities

The Council has no material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and that would require it to prepare group accounts.

xiii) Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the first in first out costing formula.

xiv) Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arms-length. Properties are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Summary of Significant Accounting Policies (continued)

xv) Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

Section 75 of the National Health Service Act 2006 enables the establishment of joint working arrangements between NHS bodies and local authorities. Pooled funds enable health bodies and local authorities to work collaboratively to address specific local health issues. Memorandum accounts are prepared relating to pooled budget agreements between the Isle of Wight Council and Isle of Wight NHS Primary Care Trust. All relevant income and expenditure is included in the relevant division of service in the Comprehensive Income and Expenditure Statement and year-end balances are shared pro-rata on the basis of contributions made.

xvi) Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. One of the key tests for classification of leases is that lease payments are substantially all of the fair value of the asset, the Council has decided to set the level of this at 70%. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey the right to use an asset in return for payment are accounted for under this policy where the fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Summary of Significant Accounting Policies (continued)

Leases (continued)

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for by using the policies applied generally such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

The Council has reviewed current lease arrangements and has concluded that currently there are no finance leases as lessor to be recognised in the accounts.

Operating Leases

Where the Council grants an operating lease over a property or item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Summary of Significant Accounting Policies (continued)

xvii) Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2010-11 (BVACOP).* The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on Assets held for Sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Cost of Services.

xviii) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition:- Expenditure on the acquisition, creation or enhancement of Property, Plant or Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

Measurement:- Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The Council does not capitalise borrowing costs incurred whilst the assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have a commercial substance (ie will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- vehicles, plant and equipment - depreciated historical cost.
- shared ownership – discounted rental value as a proxy for existing use value (EUV).
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Where capital expenditure exceeds £50,000 in year for land and building assets a valuation is completed. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land and Community Assets) together with Shared Ownership Properties and assets that are not yet available for use (ie assets under construction).

Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

Depreciation is calculated on the following bases:

- Buildings – straight-line allocation over the remainder useful life of the property as estimated by the valuer. Depreciation is calculated on the opening book value as additions over £50,000 are subject to revaluation in year. Additions in year below £50,000 and valuations in year depreciate from the start of the subsequent financial year.
- Vehicles, plant and equipment – Opening cost value and additions in year over straight line allocation as advised by a suitably qualified officer
- Infrastructure – Opening cost value and additions in year over straight line allocation as advised by a suitably qualified officer

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

This is determined at the point of valuation and is estimated by the valuer.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the net book value amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged to Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the net book value of the asset in the Balance Sheet (whether Property, Plant, Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

The written-off value of disposals is not a charge to council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xix) Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the service passes to the PFI contractor. As the Council is deemed to control the services that are provided under its Integrated Waste Management PFI scheme and as ownership of the property, plant and equipment will pass to the Council at the end of the contract for no additional charge, the Council carries the assets used under the contracts on the Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Private Finance Initiative (PFI) and Similar Contracts (continued)

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council.

The amounts payable to the PFI operators each year are analysed into four elements:-

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge of 6.1% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- Payment towards the excess of capital investment over planned capital investment specified in the contract. Excess of capital investment is credited to deferred income on the balance sheet and credited to the relevant service in the Comprehensive Income and Expenditure Statement

xx) Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

Summary of Significant Accounting Policies (continued)

Provisions, Contingent Liabilities and Contingent Assets (continued)

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income in the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

All Provisions are treated as short-term for the purpose of Balance Sheet categorisation.

Landfill Allowance Schemes

Landfill allowances, whether allocated by DEFRA or purchased from another waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

However, where a reliable estimate of fair value cannot be ascertained due to the absence of an active market, the value of allowances will be written down to nil.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but are disclosed in a note to the accounts.

xxi) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and that do not represent usable resources for the Council – these reserves are explained in the relevant policies.

Summary of Significant Accounting Policies (continued)

xxii) Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of council tax.

xxiii) VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

xxiv) Collection Fund

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR). The key features of the fund relevant to Collection Fund accounting in the financial statements are as follows:-

- In its capacity as a billing authority, the Council acts as an agent in that it collects and distributes Council Tax income on behalf of the major preceptor (Hampshire Police Authority) and itself.
- While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to a major preceptor.
- Since the collection of Council Tax and NNDR income is in substance an agency arrangement:-

  Cash collected by the billing authority from Council Tax debtors belongs proportionately to the billing authority and the major preceptors. There will therefore be a debtor/creditor position between the billing authority and each major preceptor to be recognised, since the net cash paid to each major preceptor in the year will not be its share of the cash collected from Council taxpayers: and

  Cash collected from NNDR taxpayers by billing authorities (net of the cost of collection allowance) belongs to the Government and the net amount not yet paid to the Government at the Balance Sheet date is included in the Balance Sheet as a creditor. Similarly, if the cash paid to the Government exceeds the cash collected from NNDR taxpayers (net of the cost of collection allowance), the excess is included in the Balance Sheet as a debtor. The accounting entries relating to NNDR will therefore net to zero in the Collection Fund.
- The year-end surplus or deficit on the Collection Fund relates entirely to Council Tax and is distributed between the billing and precepting authorities on the basis of estimates made on 15 January of the year-end balance.
- An assessment of an impairment allowance for both Council Tax and NNDR is carried out at each year-end and based on historical levels of write-offs of uncollectible amounts.

2. Transition to International Financial Reporting Standards (IFRS)

The Statement of Accounts for 2010-11 is the first prepared on an IFRS basis. Adoption of the IFRS based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009-10.

The following tables explain the material differences between the amounts presented in the UK GAAP based 2009-10 financial statements and the equivalent amounts presented as comparative figures in the IFRS based 2010-11 financial statements.

Short-term accumulating compensated absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement that is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009-10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009-10 Statements	Adjustments Made
	£000	£000
Short-term Creditors	(21,843)	(4,693)
Accumulated Absences Account	0	4,693

31 March 2010 Balance Sheet

	2009-10 Statements	Adjustments Made
	£000	£000
Short-term Creditors	(23,422)	(4,380)
Accumulated Absences Account	0	4,380

Transition to International Financial Reporting Standards (IFRS) (continued)

Short-term accumulating compensated absences (continued)

The adjustments made to the 2009-10 Comprehensive Income and Expenditure Statement is equivalent to the movement between the two Balance Sheet years.

2009-10 Comprehensive Income and Expenditure Statement

Cost of Services (net)

	2009-10 Statements £000	Adjustments Made £000
Education & Children's Service	32,691	(113)
Adult Social Care	45,349	(56)
Cultural, Environmental, Regulatory & Planning Services	34,360	(62)
Highways & Transport Services	18,292	(27)
Fire & Rescue Services	6,728	(23)
Housing Services (including Benefits)	4,613	(13)
Central Services to the Public	1,440	(11)
Corporate & Democratic Core	4,464	(8)

Leases

Under the Code, leases of property are accounted for as separate leases of land and buildings. Previously, each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land or buildings element of the lease being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

Under the Code, the 90% rule is no longer relevant for accounting regulations. Under the previous accounting arrangements if the present value of the minimum lease payments were less than 90% of the asset value these were classified as operating leases. The Code uses a number of control tests to determine if a lease arrangement is an operating or finance lease.

The Government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where the Council is the lessee) will be unchanged. Where the Council is the lessor, the regulations allow the Council to continue to treat the income from existing leases in the same way as it accounted for the income prior to the introduction of the Code.

The Council has fifty leases relating to vehicles, plant and equipment that were previously classified as operating leases, this change is largely due to the removal of the 90% rule. Also the Council has recognised two finance leases relating to Newport Youth Centre for the building element of the property, these were previously classified as operating leases.

As a consequence of classifying these lease arrangements as finance leases, the financial statements have been amended as follows:

- The Council has recognised an asset and a finance lease liability.
- The operating lease charge to services has been reduced by the amount that relates to the finance lease payments.

Transition to International Financial Reporting Standards (IFRS) (continued)

Leases (continued)

- The council has reviewed contractual arrangements that contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets). The Council had decided to review contracts with an annual value greater than £0.100 million and has classified assets used within the Beach Cleansing contract and Public Convenience Cleaning Contract as finance leases.

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- A depreciation charge has now been included within services.

- A depreciation charge has now been transferred from the General Fund to the Capital Adjustment Account. This transfer has been reflected in the Balance Sheets as at 1 April 2009 and 31 March 2010, and the adjustments that relate to 2009-10 are reported in the Movement in Reserves Statement for the year.

- The interest element of the lease payment in respect of the finance leases is charged to the Finance and Investment Income and Expenditure line in the Surplus or Deficit on the Provision of Services.

This has resulted in the following changes being made to the 2009-10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009-10 Statements	**Adjustments Made**
	£000	**£000**
Land and Buildings	268,349	117
Vehicles, Plant and Equipment	10,035	850
Short-term Creditor – Finance lease liability	(45)	(192)
Long-term Creditor – Finance lease liability	(432)	(941)
Capital adjustment Account	133,077	166

31 March 2010 Balance Sheet

	2009-10 Statements	**Adjustments Made**
	£000	**£000**
Land and Buildings	277,476	115
Vehicles, Plant and Equipment	12,440	716
Short-term Creditor – Finance lease liability	(47)	(187)
Long-term Creditor – Finance lease liability	(385)	(798)
Capital Adjustment Account	114,899	154

Transition to International Financial Reporting Standards (IFRS) (continued)

Leases (continued)

2009-10 Comprehensive Income and Expenditure Statement

Cost of Services (net)

	2009-10 Statements £000	Adjustments Made £000
Education & Children's Service	32,691	(9)
Adult Social Care	45,349	1
Cultural, Environmental, Regulatory & Planning Services	34,360	(16)
Highways & Transport Services	18,292	(56)
Fire & Rescue Services	6,728	(49)
Finance and Investment Income & Expenditure	16,738	116

The net charge to services consists of the adjustment of the lease charges (increase of £0.320 million) and the inclusion of the depreciation charge (increase of £0.191 million). The net increase in the Surplus or Deficit on the Provision of Services is removed by the transfer of the depreciation charge to the Capital Adjustment Account. This transfer is shown in the Movement in Reserves Statement.

Government Grants (Capital)

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance of the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet.
- Portions of government grants deferred were previously recognised as income in 2009-10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.

This has resulted in the following changes being made to the 2009-10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009-10 Statements £000	Adjustments Made £000
Government Grants Deferred Account	(16,653)	16,653
Capital Adjustment Account	133,077	(16,653)
Capital Grants unapplied	(22,758)	22,758
Capital Grants unapplied Reserve	0	(56)
Capital Grants Receipts in Advance	0	(22,702)

Transition to International Financial Reporting Standards (IFRS) (continued)

Government Grants (Capital) (continued)

31 March 2010 Balance Sheet

	2009-10 Statements £000	Adjustments Made £000
Government Grants Deferred Account	(19,686)	19,686
Capital Adjustment Account	114,899	(19,686)
Capital Grants unapplied	(43,431)	43,431
Capital Grants unapplied Reserve	0	(660)
Capital Grants Receipts in Advance	0	(42,771)

2009-10 Comprehensive Income and Expenditure Statement

Cost of Services (net)

	2009-10 Statements £000	Adjustments Made £000
Education & Children's Service	32,691	2,031
Adult Social Care	45,349	139
Cultural, Environmental, Regulatory & Planning Services	34,360	70
Highways & Transport Services	18,292	282
Fire & Rescue Services	6,728	84
Taxation and Non-Specific Grant Income	(140,671)	(6,243)

There is no change to the General Fund Balance as capital grant income is transferred out of the General Fund under both the previous and current accounting policies.

Government Grants and Contributions (Revenue)

Under the Code, revenue grants and contributions are recognised as income when they become receivable unless any conditions have not been met. Where conditions have not been met, the grant or contribution is treated as a Receipt in Advance in the Balance Sheet. Previously, grants and contributions were held in as Receipts in Advance and only recognised in the Income and Expenditure Account when the related expenditure was incurred.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The Council has recognised in the Comprehensive Income and Expenditure Statement revenue grants that either have no conditions or where the conditions had been met, and which were previously treated as Receipts in Advance in the Balance Sheet.

- The Council has recognised in the Comprehensive Income and Expenditure Statement Section 106 contributions from developers that either have no conditions or where the conditions had been met, and which were previously treated as Receipts in Advance in the Balance Sheet.

Transition to International Financial Reporting Standards (IFRS) (continued)

Government Grants and Contributions (Revenue) (continued)

- Where expenditure for both revenue grants and Section 106 contributions has not yet been incurred, the sums involved have been transferred into an earmarked reserve. Consequently there is no net impact on the General Fund Balance.

- The adjustments made to the 2009-10 Comprehensive Income and Expenditure Statement is equivalent to the movement between the two Balance Sheet years.

This has resulted in the following changes being made to the 2009-10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009-10 Statements	Adjustments Made
	£000	£000
Creditors & Receipts in Advance	(21,843)	1,813
Earmarked Reserves – Services	(5,606)	(600)
Section 106 Reserve	0	(1,213)

31 March 2010 Balance Sheet

	2009-10 Statements	Adjustments Made
	£000	£000
Creditors & Receipts in Advance	(23,422)	2,374
Earmarked Reserves – Services	(3,325)	(1,174)
Section 106 Reserve	0	(1,200)

2009-10 Comprehensive Income and Expenditure Statement

Cost of Services (net)

	2009-10 Statements	Adjustments Made
	£000	£000
Education & Children's Service	32,691	(52)
Adult Social Care	45,349	(281)
Cultural, Environmental, Regulatory & Planning Services	34,360	(17)
Fire & Rescue Services	6,728	24
Housing Services	4,613	(235)

Transition to International Financial Reporting Standards (IFRS) (continued)

Investment Property

As part of the restatement exercise a full review of asset classifications had been undertaken. Existing assets held by the Council were reviewed to determine if they meet the criteria of Investment Property. Assets are to be classified as Investment Property where they are held solely to earn rentals or for capital appreciation or both. Assets used to facilitate the delivery of services cannot be classified as Investment Property. After the review of assets, land held for capital appreciation and industrial units not occupied by the Council were classified as Investment Properties. The Pan development site was the most significant asset with a value of £1.7 million at 31 March 2010.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance of the Revaluation Reserve Account at 31 March 2009 relating in Investment Properties has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet.
- Depreciation is not charged for Investment Properties, the previous charges to services have been reversed as part of transition.
- Movements in fair value of Investment Property was charged to the Revaluation Reserve Account for assets with accumulated gains and then to the General Fund. As part of the restatement the charge has been made in full to the General Fund.

This has resulted in the following changes being made to the 2009-10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009-10 Statements £000	Adjustments Made £000
Capital Adjustment Account	133,077	(426)
Revaluation Reserve	33,758	426
Land and Buildings	268,349	(1,558)
Surplus Assets	5,546	(5,339)
Investment Property	0	6,897

31 March 2010 Balance Sheet

	2009-10 Statements £000	Adjustments Made £000
Capital Adjustment Account	114,899	(584)
Revaluation Reserve	50,785	424
Land and Buildings	277,476	(1,529)
Surplus Assets	2,515	(2,125)
Investment Property	0	3,814

Transition to International Financial Reporting Standards (IFRS) (continued)

Investment Property (continued)

2009-10 Comprehensive Income and Expenditure Statement

Cost of Services (net)

	2009-10 Statements	Adjustments Made
	£000	£000
Cultural, Environmental, Regulatory & Planning Services	34,360	(451)
Non-Distributed Costs	4,337	(3,494)
Finance and Investment Income & Expenditure	16,738	3,784

School Land and Buildings

As part of the restatement exercise a full review of School land and building assets had been undertaken. Previously all Council schools had been recognised as assets including voluntary aided, controlled and foundation schools. Under the Code, Property, Plant and Equipment is only recognised where the Council exerts control on how the asset is used and has the risk and rewards of holding such assets.

The Council had decided that Voluntary Controlled Schools are controlled by the Council and these assets are held as Property, Plant and Equipment. However Voluntary Aided and Foundation Schools are not effectively controlled by the Council and have been removed from the asset register.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The carrying value of assets and balance of the Revaluation Reserve Account at 31 March 2009 relating to Schools has been adjusted with a loss on disposal charged to the General Fund and reversed out in the Movement in Reserves Statement.
- Depreciation and impairment charged previously in 2009-10 has been reversed as part of transition.
- Capital additions in 2009-10 has been reclassified as Revenue Funded by Capital under Statute (REFCUS), as the capital additions relate to assets held by a third party. These costs have been charged to the General Fund and reversed out in year to the Capital Adjustment Account.

Transition to International Financial Reporting Standards (IFRS) (continued)

School Land and Building (continued)

This has resulted in the following changes being made to the 2009-10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009-10 Statements	Adjustments Made
	£000	**£000**
Land and Buildings	268,349	(43,236)
Revaluation Reserve	33,758	2,521
Capital Adjustment Account	133,077	40,715

31 March 2010 Balance Sheet

	2009-10 Statements	Adjustments Made
	£000	**£000**
Land and Buildings	277,476	(44,322)
Revaluation Reserve	50,785	2,482
Capital Adjustment Account	114,899	41,840

2009-10 Comprehensive Income and Expenditure Statement

Cost of Services (net)

	2009-10 Statements	Adjustments Made
	£000	**£000**
Children's & Education Service	32,691	1,085

3. Accounting Standards that have been issued but have not yet been adopted

Heritage Assets: Impact of the adoption of the new standard on the 2011-12 financial statements

The Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 (the Code) has introduced a change in accounting policy in relation to the treatment of heritage assets held by the Council, which will need to be adopted fully by the Council in the 2011-12 financial statements.

The Council is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Council, in this case, heritage assets. As is set out above, full adoption of the standard will be required for the 2011-12 financial statements. However, the Council is required to make disclosure of the estimated effect of the new standard in these (2010-11) financial statements. The new standard will require that a new class of asset, heritage assets, is disclosed separately on the face of the Council's Balance Sheet in the 2011-12 financial statements.

Accounting Standards that have been issued but have not yet been adopted (continued)

Heritage assets are assets that are held by the Council principally for their contribution to knowledge or culture. The heritage assets held by the Council are collections of assets and artefacts exhibited or stored in the Council's museums. The six principal collections of heritage assets cover local geology and local history and archaeology include:

- Dinosaur Isle, Sandown – major displays of geological specimens
- Museum of Island History, Newport – displays of local geology, archaeology and history.
- Newport Roman Villa – displays of local Roman material.
- Cowes Maritime Museum – displays and storage of local maritime history material.
- Cothey Bottom Heritage Centre – major store for materials in all subjects.
- Archaeological Centre, Carisbrooke – "holding" storage for processing archaeological finds

The assets above are not currently recognised in the financial statements as limited information is available on the cost of these assets. The Code will require that heritage assets are measured at valuation in the 2011-12 financial statements (including the 2010-11 comparative information). The 2011-12 Code will permit some relaxations in the valuation requirements of heritage assets and this will mean that the authority is able to recognise some of its collections of heritage assets in the Balance Sheet. The Council anticipates that it will be able to recognise its paintings and sculptures on the Balance Sheet as it is based on insurance valuations (which are based on market values) held by the Council. The Council is unlikely to be able to recognise the majority of collections held in future financial statements as it is of the view that obtaining valuations for the vast majority of these two collections would involve a disproportionate cost of obtaining the information in comparison to the benefits to the users of the Council's financial statements – this exemption is permitted by the 2011-12 Code.

The Council estimates that the value of the collections held from its insurance records is £0.5 million as at 1 April 2010. As these assets have not yet been recognised in the Balance Sheet, this will require a corresponding increase in the Revaluation Reserve of £0.5 million, ie a revaluation gain.

The Council considers that the heritage assets held by the Council will have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation for the assets. There will therefore be no change to the depreciation charged in the financial statements in relation to heritage assets.

4. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- **Future funding of the Council**.
  There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of the need to close facilities and reduce levels of service provision.

- **Asset classifications**
  The Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. These judgements are based on the principal reason for the Council holding the asset. If the asset is used in the delivery of services by the Council or to fulfil a corporate objective then they are deemed to be Property, Plant and Equipment assets. If assets are held principally for rental income or capital appreciation then this would indicate that the asset is an Investment Property. The classification determines the valuation method to be used.

- **Lease classifications**
  The Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The results of the tests are taken as a whole and a decision has been made on classification. The accounting treatment for operating and finance leases is significantly different (see accounting policy on Leases) and could have a significant effect on the accounts.

- **Contractual arrangements**
  The Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets). The judgement made for these concerns the amount of use considered to be significant and recognised as a lease arrangement. For arrangements with more than 50% use of assets in contractual arrangements the Council has considered this to be a significant and recognised as assets to the Council and a related liability to repay these over the contract period.

- **School Land and Buildings**
  The Council has made judgements on whether the control of school land and buildings not owned by the Council remain as Property, Plant and Equipment. The Council had decided that voluntary controlled schools will remain as Property, Plant and Equipment as control of school is held by Council. Voluntary Aided Schools will be recognised as Property, Plant and Equipment where legal ownership rests with the Council and currently this is limited to playing field land where relevant. Foundation Schools are not recognised as Property, Plant and Equipment as control is transferred to the relevant trust.

5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.125 million for every year that useful lives had to be reduced.
Local Government Pension Scheme – Pensions Liability	The estimation of the net liability to pay retirement benefits depends on a number of complex judgements. In particular these judgement relate to the discount rate used, the rate at which salaries are projected to increase, changes to the age at which retirement benefits can be taken, mortality rates and the expected returns on pension fund assets. The Council engages an actuary to provide expert advice about the assumptions to be applied and the sensitivity of the results.	The impact on the net pensions liability of changes in individual assumptions can be measured in approximate terms. For example, a 0.5% decrease in the Real Discount Rate would result in an increase of 10% to the employer liability for which the monetary value would be £38.732 million. A one year increase in member life expectancy would result in an increase of 3% to the employer liability for which the monetary value would be £12.203 million. A 0.5% increase in the Salary Increase Rate would result in an increase of 2% to the employer liability for which the monetary value would be £9.147 million. A 0.5% increase in the Pension Increase Rate would result in an increase of 7% to the employer liability for which the monetary value would be £24.990 million.

Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty (continued)

Item	Uncertainties	Effect if actual results differ from assumptions
Fire-fighters' Pension Scheme – Pensions Liability	As with the Local Government Pension Scheme, the estimation of the net liability to pay retirement benefits depends on a number of complex judgements.	The impact on the net pensions liability of changes in individual assumptions can be measured in approximate terms. For example, a 0.5% decrease in the Real Discount Rate would result in an increase of 10% to the employer liability for which the monetary value would be £4.100 million. A one year increase in member life expectancy would result in an increase of 4% to the employer liability for which the monetary value would be £1.400 million. A 0.5% increase in the Salary Increase Rate would result in an increase of 2% to the employer liability for which the monetary value would be £0.600 million. A 0.5% increase in the Pension Increase Rate would result in an increase of 9% to the employer liability for which the monetary value would be £3.500 million.
Allowance for non-payment of Debtors (Provision for Bad Debts)	The Council has made allowances for the non-collection of outstanding debts of £2.203 million in 2010-11 (£1.789 million in 2009-10). The allowance for Council Tax arrears (£0.208 million) is based on an average of historic levels of write-off. The allowances for the remaining sundry debts (including Housing Benefit overpayments) are calculated on a sliding scale of percentages applied to the outstanding amounts based on an age profile and nature of the debts.	For Council Tax arrears, variances between estimated and actual write-offs will have an impact on the surplus or deficit on the Collection Fund. A higher than anticipated Collection Fund deficit or surplus will need to be taken into account when setting future Council Tax levels. For the remaining sundry debts (including Housing Benefit Overpayments) a 5% increase in the percentage applied would require an adjustment to the allowance of £0.080 million.
Insurance Provision	A provision for outstanding insurance liabilities has been based on information contained within the Council's in-house claims recording database. The services of a claims handling company is used to process claims made against the Council. As significant claims can often take many years to be settled, outcomes cannot always be predicted with any great level of certainty.	The Insurance Provision is being maintained at a level considered to be prudent in view of the information currently available. The impact of an significant claim paid from the Provision would require a reassessment of the adequacy of the Provision and additional contributions may need to be made from the General Fund if the Provision was found to be insufficient to absorb such a claim.

Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty (continued)

Item	Uncertainties	Effect if actual results differ from assumptions
Accumulated Absences Account	An accrual in respect of non-teaching staff annual leave entitlement carried forward at 31 March has been based on a sample of employees for 2009-10, due to the unavailability of reliable records for that year. However, the 2010-11 calculation was based on 100% of staff as systems were implemented to ensure that adequate records were maintained. The accrual in respect of teaching staff is based on a formula which is based on the school holiday year. Differences between years can arise as a result of the dates of the Easter holidays.	Both Current Assets and Unusable Reserves on the Balance Sheet would be under or over stated if the estimate was proved not to be robust. The Net Worth on the Balance Sheet would therefore be under or over stated. The impact on the Comprehensive Income & Expenditure Statement is the movement between the Balance Sheet figures between the two years. However, the entries in the Comprehensive Income & Expenditure Statement are reversed out through the Movement in Reserves Statement, so that there is no impact on the General Fund Balance.

6. Material Items of Income and Expense

The Chancellor's Emergency Budget on 22 June 2010 announced that pension increases would in future be based on CPI rather than RPI. This has resulted in a past service credits of £45.786 million for the Local Government Scheme and £5.700 million for the Fire-fighters' Pension Scheme appearing in the Non-Distributed Costs line in the Comprehensive Income & Expenditure Statement. These credits have been treated as one-off adjustments in 2010-11, in line with CIPFA/Audit Commission recommendations.

7. Events after the Balance Sheet Date

There are no Post Balance Sheet Events recorded prior to the authorised for issue date and any events that occurred after this date have not been recognised in the Statement of Accounts.

8. Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2010-11	**General Fund Balance £000**	**Capital Receipts Reserve Reserves £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	**(18,296)**	-	-	**18,296**
Movements in the market value of Investment Properties	**3,422**	-	-	**(3,422)**
Amortisation of intangible assets	**(416)**	-	-	**416**
Capital grants and contributions applied	**16,658**	-	-	**(16,658)**
Revenue expenditure funded from capital under statute	**(5,297)**	-	-	**5,297**
Waste PFI deferred income	**154**	-	-	**(154)**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	**(676)**	**(1,432)**	**-**	**2,108**
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement:				
Statutory provision for the financing of capital investment	**8,554**	-	-	**(8,554)**

Adjustments between accounting basis and funding basis under regulations (continued)

2010-11	**General Fund Balance £000**	**Capital Receipts Reserve Reserves £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	**300**	-	**(300)**	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	**329**	**(329)**
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	**0**	**0**	-	-
Use of the Capital Receipts Reserves to finance new capital expenditure	-	**1,454**	-	**(1,454)**
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	**0**	**0**	-	-
Contribution from the Capital Receipts to finance the payments to the Government housing capital receipts pool	**(1)**	**1**	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	**(23)**	-	**23**
Adjustments primarily involving the Deferred Capital Receipts Reserve:				
Transfer of deferred sale proceeds credited as part of the of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	**0**	-	-	**0**

Adjustments between accounting basis and funding basis under regulations (continued)

2010-11	**General Fund Balance £000**	**Capital Receipts Reserve Reserves £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustment primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	**2,451**	**-**	**-**	**(2,451)**
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement (see Note 46)	**29,458**	**-**	**-**	**(29,458)**
Employers' pension contributions and direct payments to pensioners in the year	**14,650**	**-**	**-**	**(14,650)**
'Capitalised' Pension costs	**902**	**-**	**-**	**(902)**
Firefighters' Pension Scheme – movement on top-up grant repayable (to)/from Government	**(875)**	**-**	**-**	**875**
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	**(123)**	**-**	**-**	**123**
Adjustments primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**1,399**	**-**	**-**	**(1,399)**
Total Adjustments	**52,264**	**0**	**29**	**(52,293)**

Adjustments between accounting basis and funding basis under regulations (continued)

2009-10 comparative figures	**General Fund Balance £000**	**Capital Receipts Reserve Reserves £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement:				
Charges for depreciation and impairment of non-current assets and current assets held for sale	**(22,685)**	-	-	**22,685**
Movements in the market value of Investment Properties	**(3,784)**	-	-	**3,784**
Amortisation of intangible assets	**(455)**	-	-	**455**
Capital grants and contributions applied	**8,597**	-	**(604)**	**(7,993)**
Revenue expenditure funded from capital under statute	**(6,066)**	-	-	**6,066**
Waste PFI deferred income	**154**	-	-	**(154)**
Amounts of non-current assets and current assets held for sale written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	**135**	**(1,942)**		**1,807**
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement:				
Statutory provision for the financing of capital investment	**7,915**	**-**	**-**	**(7,915)**

Adjustments between accounting basis and funding basis under regulations (continued)

2009-10 comparative figures	**General Fund Balance £000**	**Capital Receipts Reserve Reserves £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	**0**	-	**0**	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	**0**	**0**
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	**0**	**0**	-	-
Use of the Capital Receipts Reserves to finance new capital expenditure	-	**4,828**	-	**(4,828)**
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	**0**	**0**	-	-
Contribution from the Capital Receipts to finance the payments to the Government housing capital receipts pool	**(1)**	**1**	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	**0**	-	**0**
Re-instated balance (Ryde Gateway)	**-**	**(2,887)**	-	**2,887**
Adjustments primarily involving the Deferred Capital Receipts Reserve:				
Transfer of deferred sale proceeds credited as part of the of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	**0**	-	-	**0**

Adjustments between accounting basis and funding basis under regulations (continued)

2009-10 comparative figures	**General Fund Balance £000**	**Capital Receipts Reserve Reserves £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustment primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	**490**	-	-	**(490)**
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement (see Note 45)	**(18,546)**	-	-	**18,546**
Employers' pension contributions and direct payments to pensioners in the year	**15,085**	-	-	**(15,085)**
'Capitalised' Pension costs	**123**	-	-	**(123)**
Firefighters' Pension Scheme – movement on top-up grant repayable (to)/from Government	**2**	-	-	**(2)**
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	**53**	-	-	**(53)**
Adjustments primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**313**	-	-	**(313)**
Total Adjustments	**(18,670)**	**0**	**(604)**	**19,274**

9. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts transferred from earmarked reserves to meet General Fund expenditure in 2010-11.

	Balance at a April 2009 £000	Transfers out 2009-10 £000	Transfers in 2009-10 £000	Balance at 31 March 2010 £000	Transfers out 2010-11 £000	Transfers in 2010-11 £000	Balance at 31 March 2011 £000
General Fund:							
Balances held by schools under scheme of delegation	2,688	(1,983)	75	780	(197)	0	**583**
Earmarked Revenue Reserve	2,260	(2,260)	3,015	3,015	(3,158)	1,803	**1,660**
Repairs & Renewals Funds	1,037	(407)	349	979	(170)	55	**864**
Earmarked Reserve – Services	6,206	(2,685)	978	4,499	(2,633)	658	**2,524**
Insurance & Risk Funds	4,899	(358)	402	4,943	(261)	1,048	**5,730**
Organisational Change Reserve	0	0	0	0	0	1,765	**1,765**
Section 106 contributions Reserve	1,213	(97)	84	1,200	(219)	319	**1,300**
Total	18,303	(7,790)	4,903	15,416	(6,638)	5,648	**14,426**

School balances represent cumulative underspendings set aside by delegated budget holders under Schemes for Financing Schools. The law requires that these underspendings are carried forward for future use by the school concerned.

The Earmarked Revenue Reserve provides the finance for slipped expenditure to be carried forward into the next financial year.

The Repairs and Renewals Funds comprises contingencies to meet significant items of unforeseen expenditure, together with service specific funds for equipment renewal.

The Services Earmarked Reserves represent specific sums set aside to meet future requirements, specifically in relation to restructuring costs, computer systems developments and asset reviews, as well as individual service project funds.

The Organisational Change Reserve provides for the potential cost of implementing the measures necessary to change the future shape and direction of the Council and achieve a sustainable organisation, including a terms and conditions review and additional termination costs.

Insurance and Risk Funds provide the means to take categories of insurance risk in-house in the future and to meet various contingencies. These funds also recognise that the Council faces a number of non-insurable risks that fall outside the scope of normal insurance cover including litigation, contract disputes and natural disasters. Rather than provide for these individually, with subsequent volatility within the revenue budget, the non-insurable risk element within these reserves currently provides for these potential liabilities.

10. Other Operating Expenditure

2009-10 £000		2010-11 £000
1,307	Parish & Town Council Precepts	**1,414**
118	Levies	**126**
1	Payments to Government Housing Capital Receipts Pool	**1**
(2)	Fire-fighters' Pension Scheme – movement in top-up grant repayable to/(from) Government	**875**
(135)	(Gains)/losses on the disposal of non-current assets and current assets held for sale	**676**
1,289	**Total**	**3,092**

A levy of £0.091 million (£0.084 million in 2009-10) is paid to the Southern Inshore Fisheries and Conservation Authority and £0.035 million (£0.034 million in 2009-10) is paid as a Flood Defence levy to the Environment Agency.

11. Financing and Investment Income & Expenditure

2009-10 £000		2010-11 £000
6,827	Interest payable	**6,747**
10,395	Pension interest cost and expected return on pension assets	**8,261**
(368)	Interest receivable	**(165)**
3,665	Income & expenditure in relation to investment properties and changes in fair value	**(3,529)**
20,519	**Total**	**11,314**

12. Taxation and Non Specific Grant Incomes

2009-10 £000		2010-11 £000	
70,319	Council Tax income		**72,358**
48,041	Non Domestic Rates distribution	**53,612**	
22,311	Non-ringfenced government grants	**22,038**	
6,243	Capital grants & contributions	**14,432**	
76,595	Total Grant Income (see note 37)		**90,082**
146,914	**Total**		**162,440**

13. Property, Plant & Equipment

Movements on Balances **Movements in 2010-11**	**Shared Ownership £000**	**Other Land & Buildings £000**	**Vehicles, Plant, Furniture & Equipment £000**	**Infrastructure Assets £000**	**Community Assets £000**	**Surplus Assets £000**	**Assets under construction £000**	**Total Property, Plant & Equipment £000**	**PFI Assets included in Property, Plant & Equipment £000**
Cost or valuation									
At 1 April 2010	1,195	263,740	32,759	95,060	2,652	300	4,677	400,383	21,037
Additions	0	3,486	5,064	6,008	456	0	10,979	25,993	0
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	6	4,993	0	0	0	99	0	5,098	47
Derecognition	0	(271)	(1,208)	0	(439)	0	0	(1,918)	(13)
Assets reclassified (to)/from Held for Sale	(28)	(1,806)	(313)	0	0	(195)	0	(2,342)	0
Abortive Capital Expenditure	0	0	0	0	0	0	(15)	(15)	0
Reclassification	0	958	2,290	165	(616)	6	(2,803)	0	0
At 31 March 2011	**1,173**	**271,100**	**38,592**	**101,233**	**2,053**	**210**	**12,838**	**427,199**	**21,072**

Property, Plant & Equipment (continued)

Accumulated Depreciation & Impairment	**Shared Ownership £000**	**Other Land & Buildings £000**	**Vehicles, Plant, Furniture & Equipment £000**	**Infrastructure Assets £000**	**Community Assets £000**	**Surplus Assets £000**	**Assets under construction £000**	**Total Property, Plant & Equipment £000**	**PFI Assets included in Property, Plant & Equipment £000**
Cost or valuation									
At 1 April 2010	0	(33,478)	(19,603)	(20,577)	(176)	(97)	0	(73,931)	(17,113)
Depreciation charge	0	(4,320)	(5,301)	(4,962)	0	0	0	(14,583)	(932)
Depreciation written out to the Revaluation Reserve	0	1,849	0	0	0	0	0	1,849	0
Impairment losses or (reversals) written out to the Revaluation Reserve	0	52	0	0	(95)	(100)	0	(143)	0
Impairment losses or (reversals) recognised in the Surplus/Deficit on the Provision of Services	0	(2,182)	0	0	(160)	(100)	0	(2,442)	0
Derecognition	0	64	1,072	0	42	0	0	1,178	13
Assets reclassified (to)/from Held for Sale	0	164	290	0	0	95	0	549	0
Reclassification	0	2	0	0	(2)	0	0	0	0
At 31 March 2011	**0**	**(37,849)**	**(23,542)**	**(25,539)**	**(391)**	**(202)**	**0**	**(87,523)**	**(18,032)**
Net Book Value at 31 March 2011	**1,173**	**233,251**	**15,050**	**75,694**	**1,662**	**8**	**12,838**	**339,676**	**3,039**
Net Book Value at 31 March 2010	1,195	230,262	13,156	74,483	2,476	203	4,677	326,452	3,924

Property, Plant & Equipment (continued)

Movements on Balances **Comparative Movements in 2009-10**	**Shared Ownership £000**	**Other Land & Buildings £000**	**Vehicles, Plant, Furniture & Equipment £000**	**Infrastructure Assets £000**	**Community Assets £000**	**Surplus Assets £000**	**Assets under construction £000**	**Total Property, Plant & Equipment £000**	**PFI Assets included in Property, Plant & Equipment £000**
Cost or valuation									
At 1 April 2009	1,204	249,829	25,082	84,888	2,110	301	7,727	371,141	19,198
Additions	0	4,808	5,303	9,879	16	2	3,927	23,935	1,072
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	51	10,709	0	0	645	0	0	11,405	787
Derecognition	0	0	(20)	0	0	0	0	(20)	(20)
Assets reclassified (to)/from Held for Sale	(11)	(2,436)	(45)	0	0	(52)	0	(2,544)	0
Abortive Capital Expenditure	0	0	0	0	0	0	(3,500)	(3,500)	0
Reclassification	(49)	830	2,439	293	(119)	49	(3,477)	(34)	0
At 31 March 2010	**1,195**	**263,740**	**32,759**	**95,060**	**2,652**	**300**	**4,677**	**400,383**	**21,037**

Property, Plant & Equipment (continued)

Accumulated Depreciation & Impairment	**Shared Ownership £000**	**Other Land & Buildings £000**	**Vehicles, Plant, Furniture & Equipment £000**	**Infrastructure Assets £000**	**Community Assets £000**	**Surplus Assets £000**	**Assets under construction £000**	**Total Property, Plant & Equipment £000**	**PFI Assets included in Property, Plant & Equipment £000**
Cost or valuation									
At 1 April 2009	(6)	(26,157)	(14,198)	(15,868)	(179)	(94)	0	(56,502)	(11,037)
Depreciation charge	0	(4,577)	(5,252)	(4,709)	3	(3)	0	(14,538)	(1,235)
Depreciation written out to the Revaluation Reserve	6	4,529	0	0	0	0	0	4,535	0
Impairment losses or (reversals) written out to the Revaluation Reserve	0	603	0	0	0	0	0	603	0
Impairment losses or (reversals) recognised in the Surplus/Deficit on the Provision of Services	0	(8,103)	0	0	0	0	0	(8,103)	(4,861)
Derecognition	0	0	20	0	0	0	0	20	20
Assets reclassified (to)/from Held for Sale	0	227	17	0	0	0	0	244	0
Reclassification	0	0	(190)	0	0	0	0	(190)	0
At 31 March 2010	**0**	**(33,478)**	**(19,603)**	**(20,577)**	**(176)**	**(97)**	**0**	**(73,931)**	**(17,113)**
Net Book Value at 31 March 2010	**1,195**	**230,262**	**13,156**	**74,483**	**2,476**	**203**	**4,677**	**326,452**	**3,924**
Net Book Value at 31 March 2009	1,198	223,672	10,884	69,020	1,931	207	7,727	314,639	8,161

Property, Plant & Equipment (continued)

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Other Land and Buildings – straight-line allocation over the life of the property as estimated by the valuer
- Vehicles, Plant, Furniture and Equipment - straight-line allocation over the life of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- Infrastructure - straight-line allocation over estimated life of the asset

Capital Commitments

At 31 March 2011, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011-12 and future years budgeted to cost £53.703 million. The major commitments are:

- Cowes High School One School Pathfinder - £29.267 million
- Schools Reorganisation Programme - £22.492 million
- Highways schemes - £1.393 million

Similar commitments at 31 March 2010 were £3.904 million and were principally related to Highways schemes and ICT projects.

Effects of Changes in Estimates

During the audit of 2009-10 there were a number of building assets that had a shorter estimate of remainder useful life compared to the valuation estimate. Due to the amounts not being material it was agreed that the amendments would be corrected in 2010-11.

As a result of these changes, the depreciation charge for 2010-11 was £0.412 lower than it would have been if the remainder useful life's assessed in 2009-10 had been used for the calculations after adjusting for changes made in the transition to International Financial Reporting Standards.

Revaluations

The Council carries out a rolling programme that ensures that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. The valuations of properties were undertaken by Ms A Jenkins MRICS an officer of the Council, John E Prince FRICS, IRRV of Principal Chartered Surveyors and Peter J Dewey FRICS of Lambournes Chartered Surveyors. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on historic cost.

The significant assumptions applied in estimating the fair values are:

- Where there is no active market for land and buildings assets are valued on a Depreciated Replacement Cost basis.
- Investment Properties are valued annually on a fair value market value basis.
- Assets held for sale are valued at the lower of carrying value or net sale proceeds at reclassification
- Vehicles, Plant and Equipment, Community assets, infrastructure assets and assets under construction are valued on acquisition value refereed as historic cost
- All other assets are valued on fair value existing use value basis

Property, Plant & Equipment (continued)

	Other Land and Buildings £000s	Vehicles Plant Furniture & Equipment £000s	Surplus Assets £000s	Total £000s
Carried at historical cost	0	15,050	6	15,056
Valued at fair value as at:				
31 March 2011	46,332	0	0	46,332
31 March 2010	43,726	0	2	43,728
31 March 2009	45,715	0	0	45,715
31 March 2008	68,249	0	0	68,249
31 March 2007	29,229	0	0	29,229
Total	**233,251**	**15,050**	**8**	**248,309**

14. Investment Property

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2010-11 £000s	2009-10 £000s
Rental income from investment property	115	123
Direct operating expenses arising from investment property	(8)	(4)
Net gain/(loss)	107	119

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

Investment Property (continued)

The following table summarises the movement in the fair value of investment properties over the year:

	2010-11 £000s	**2009-10 £000s**
Balance at 1 April	**3,814**	6,896
Additions:		
Subsequent expenditure	**120**	702
Disposals	**(748)**	0
Net gains/losses from fair value adjustments	**3,421**	(3,784)
Balance at 31 March	**6,607**	3,814

15. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. Software development costs are recognised as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licenses and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council are:

	Internally Generated Assets	**Other Assets**
3 years		EMS licenses (Schools)
4 years	Isle of Wight Council website	-
5 years	-	Integrated Children’s system
10 years	-	SAP (Payroll/Human Resources/Accounts Payable/Accounts Receivable/Financial ledger)

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.416 million was charged to the Comprehensive Income and Expenditure Statement in 2010-11. The majority of this was charged to Support Services (£0.219 million) and Children and Education Services (£0.161 million). The Support Services charge is absorbed as an overhead across all the service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

Intangible Assets (continued)

The movement on Intangible Asset balances during the year is as follows:

	2010-11			2009-10		
	Internally Generated Assets £000s	**Other Assets £000s**	**Total £000s**	**Internally Generated Assets £000s**	**Other Assets £000s**	**Total £000s**
Balance at 1 April						
Gross carrying amounts	**0**	**2,441**	**2,441**	0	1,929	1,929
Accumulated amortisation	**0**	**(1,383)**	**(1,383)**	0	(1,117)	(1,117)
Net carrying amount at 1 April	**0**	**1,058**	**1,058**	0	812	812
Additions:						
Internal development	**135**	**0**	**135**	0	0	0
Purchases	**0**	**256**	**256**	0	473	473
Amortisation for the period	**(34)**	**(382)**	**(416)**	0	(456)	(456)
Reclassification gross value to Property, Plant & Equipment	**0**	**0**	**0**	0	39	39
Reclassification amortisation to Property, Plant & Equipment	**0**	**0**	**0**	0	190	190
Net carrying amount at 31 March	**101**	**932**	**1,033**	0	1,058	1,058
Comprising:						
Gross carrying amounts	**135**	**2,698**	**2,833**	0	2,441	2,441
Accumulated amortisation	**(34)**	**(1,766)**	**(1,800)**	0	(1,383)	(1,383)
Balance at 31 March	**101**	**932**	**1,033**	0	1,058	1,058

There is one item of capitalised software that is individually material to the financial statements:

	Carrying amount		
	31 March 2011 £000	**31 March 2010 £000**	**Remaining Amortisation Period at 31 March 2011**
SAP system	463	521	8 years

The Council does not revalue its software assets and holds these at historic cost less accumulated amortisation with annual reviews for impairment. With the exception of SAP, software licenses are not transferable so obtaining a current value is not possible. Obtaining a comparable cost for SAP has not been possible as the cost is negotiated at time of acquisition.

16. Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long-Term			Current		
	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000	**31 March 2011 £000**	31 March 2010 £000	31 March 2009 £000
Investments						
Short-term Investments	**-**	-	-	**12,160**	5,401	8,957
Cash equivalents	**-**	-	-	**5,002**	1,850	2,890
Available-for-sale financial assets	**11**	11	11	**0**	0	0
Total Investments	**11**	11	11	**17,162**	7,251	11,847
Debtors						
Loans and receivables	**64**	88	94	**-**	-	-
Financial assets carried at contract amounts	**-**	-	-	**17,167**	16,211	10,988
Total Debtors	**64**	88	94	**17,167**	16,211	10,988
Borrowings						
Financial liabilities at amortised cost	**(111,888)**	(112,888)	(112,888)	**(12,682)**	(10,800)	(14,035)
Total borrowings	**(111,888)**	(112,888)	(112,888)	**(12,682)**	(10,800)	(14,035)
Creditors						
PFI and finance lease liabilities	**(4,533)**	(5,240)	(5,988)	**-**	-	-
Other financial liabilities at amortised cost	**(1,068)**	(1,694)	(1,437)	**-**	-	-
Financial liabilities carried at contract amount	**-**	-	-	**(25,689)**	(20,397)	(22,730)
Total Creditors	**(5,601)**	(6,934)	(7,425)	**(25,689)**	(20,397)	(22,730)

In previous years, contributions due from the Council in respect of capitalised pension costs arising from redundancy have been accounted for on a cash basis. As a result of new guidance issued by CIPFA, this treatment has been amended such that they are accounted for on an accruals basis. This change in accounting treatment has been applied retrospectively by restating the comparative years' Long-term Creditors figures with the long-term element of the balance outstanding to the Pension Fund (£0.833 million at 31 March 2009 and £0.579 million at 31 March 2010).

Income, Expense, Gains and Losses

	2010-11 £000	2009-10 £000
Interest expense from Financial liabilities measures at amortised cost	**(6,747)**	(6,711)
Total expense in Surplus or Deficit on the Provision of Services	**(6,747)**	(6,711)
Interest income from Financial Assets: Loans and receivables	**165**	368
Total expense in Surplus or Deficit on the Provision of Services	**165**	368
Net loss for the year	**(6,582)**	(6,343)

Financial Instruments (continued)

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- estimated ranges of interest rates at 31 March 2011 of 1.87% to 5.35% for loans from the PWLB, based on new lending rates for equivalent loans at that date
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Liabilities	**31 March 2011**		31 March 2010	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	£000	**£000**	£000	£000
Financial liabilities	**150,259**	**163,213**	144,085	154,554
Long-term creditors	**5,601**	**5,601**	6,934	6,934

The fair value of the liabilities is more than the carrying amount because the Council's PWLB portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2011) arising from a commitment to pay interest to lenders above current market rates.

There are three Lender Option Borrower Option (LOBO) loans amounting to £9 million included in the Financial liabilities figures. The lenders have the option to request a change in the interest rate which could lead the Council to make an early repayment. None of the lenders have exercised their option to change the interest rate.

Assets	**31 March 2011**		31 March 2010	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	£000	**£000**	£000	£000
Loans and receivables	**34,340**	**34,340**	23,473	23,473
Long-term debtors	**64**	**64**	88	88

Available for sale assets and assets and liabilities at fair value through profit and loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

Other Long-term Liabilities
The liability relating to the defined benefit pension schemes (Local Government Pension Scheme and the Fire-fighters' Pension Fund) is £165.059 million (£269.664 million in 2009-10). These figures include the balance due or from the Government in respect of the top-up grant.

17. Inventories

	Consumable Stores		Maintenance Materials		Stocks for resale		Total	
	2010-11 £000	2009-10 £000	**2010-11 £000**	2009-10 £000	**2010-11 £000**	2009-10 £000	**2010-11 £000**	2009-10 £000
Balance outstanding at start of year	**148**	165	**155**	128	**290**	282	**593**	575
Purchases	**449**	359	**174**	222	**386**	450	**1,009**	1,031
Sales	**0**	0	**0**	0	**(741)**	(853)	**(741)**	(853)
Profit transferred to CI&E Statement	**0**	0	**0**	0	**357**	411	**357**	411
Recognised as an expense in the year	**(452)**	(376)	**(155)**	(195)	**0**	0	**(607)**	(571)
Written-off balances	**(39)**	0	**0**	0	**(23)**	0	**(62)**	0
Balance outstanding at year-end	**106**	148	**174**	155	**269**	290	**549**	593

18. Debtors

	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000
Central Government bodies	**5,796**	7,505	4,085
Other Local Authorities	**228**	37	18
Other entities and individuals (see below)	**14,797**	15,738	14,369
Total	**20,821**	23,280	18,472

Debtors (continued)

The Other entities and individuals total is shown net of the Impairment of Debtors (Provision for Bad Debts). Impairment is not anticipated on Central Government or Other Local Authority debts. Impairment is reviewed annually and is a cumulative figure to cover all outstanding debtors. The Other entities and individuals balances are further analysed as follows:

	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000
Sundry debtors	9,826	11,569	11,410
Less: allowance for non-collection	(1,195)	(1,064)	(1,107)
Sundry Debtors (net of allowance for non-collection)	**8,631**	**10,505**	**10,303**
Local Taxpayers	2,674	2,274	1,949
Less: allowance for non-collection	(274)	(273)	(277)
Local Taxpayers (net of allowance for non-collection)	**2,400**	**2,001**	**1,672**
Housing Benefit overpayments	1,986	1,337	1,387
Less: allowance for non-collection	(734)	(452)	(620)
Housing Benefit overpayments (net of allowance for non-collection)	**1,252**	**885**	**767**
Prepayments	**2,514**	2,347	1,627
Total Other entities and individuals	**14,797**	15,738	14,369

19. Cash and Cash Equivalents

	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000
Cash held by the Council	**4,249**	3,236	4,022
Short-term deposits with banks	**5,002**	1,850	2,889
Bank current accounts overdrawn	**(10,964)**	(7,131)	(9,008)
Total	**(1,713)**	(2,045)	(2,097)

20. Assets held for sale

	Current		Non Current	
	2010-11 £000	2009-10 £000	**2010-11 £000**	2009-10 £000
Balance at 1 April	**450**	0	**0**	0
Assets newly classified as held for sale:				
Property, Plant & Equipment	**1,793**	2,300	**0**	0
Impairment losses	**(1,271)**	(45)	**0**	0
Other Movements	**14**	0	**0**	0
Assets sold	**(620)**	(1,805)	**0**	0
Balance at 31 March	**366**	450	**0**	0

21. Creditors

In previous years, contributions due from the Council in respect of capitalised pension costs arising from redundancy have been accounted for on a cash basis. As a result of new guidance issued by CIPFA, this treatment has been amended such that they are accounted for on an accruals basis. This change in accounting treatment has been applied retrospectively by restating the comparative years' Other entities and individuals figures with the short-term element of the balance outstanding to the Pension Fund. (£0.385 million at 31 March 2009 and £0.516 million at 31 March 2010).

	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000
Central Government bodies	**6,063**	5,185	7,519
Other local authorities	**40**	16	12
Public corporations and trading funds	**121**	126	35
Other entities and individuals (see below)	**21,114**	22,049	18,832
Total	**27,338**	27,376	26,398

The Other entities and individuals Creditors balances are further analysed as follows:

	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000
Sundry Creditors	**14,469**	17,494	14,887
Local Taxpayers	**1,493**	1,520	1,447
Receipts in Advance	**5,152**	3,035	2,498
Total	**21,114**	22,049	18,832

22. Provisions

	Outstanding Legal Claims £000	**Outstanding Insurance Claims £000**	**Employment related & restructuring costs £000**	**Total £000**
Balance at 1 April 2010	141	2,744	338	**3,223**
Additional provision made in 2010-11	0	0	1,083	**1,083**
Amounts used in 2010-11	(63)	0	(89)	**(152)**
Unused amounts reversed in 2010-11	(78)	(18)	(129)	**(225)**
Balance at 31 March 2011	**0**	**2,726**	**1,203**	**3,929**

Outstanding legal claims
The council is one of four authorities currently in litigation with HM Revenue & Customs concerning the VAT treatment of off-street car parking. The case was initially decided in the UK courts in February 2006 and judged in favour of the councils and it has been through a number of appeal stages since. In the last instance it was referred to the European Court of Justice who in turn referred specific elements of the case back to the Tribunal service. A date has yet to be set for the full Appeal.

Following the initial success in the case the council withheld payment of VAT on off-street car parking charges from HMRC. A subsequent change in policy by HMRC has resulted in all VAT collected being paid over to HMRC and appeals lodged at tribunal for these sums pending the successful outcome of the case. There is therefore no existing liability on the council.

An Escrow account is in existence funded by the Consultants pursuing the case on behalf of the four councils. In the event of an adverse cost award against the council, should the case be lost, sufficient funds are available within the Escrow account to ensure no liability exist to the Councils.

If the original decision is upheld, the final sum receivable will be subject to agreement with HMRC.

Outstanding insurance claims
An estimate has been of potential liabilities arising from outstanding insurance claims. The principal sources of claims are related to Public and Employers' Liability and an assessment of the Council's claims register has been made to establish the likely exposure.

Employment related and Restructuring costs
The provision includes the termination costs of staff identified as 'at risk' prior to 31 March 2011 and for whom a reasonable estimate of likely costs could be made.

There are a number of claims outstanding at 31 March 2011 for unfair dismissal which will result in Employment Tribunals. Estimates have been made of the potential compensation amounts for which the Council may be liable.

The Part-Time Workers (Prevention of Less Favourable Treatment) Regulations has resulted in an out of court settlement relating to Retained Fire-Fighters and the Council's potential liability has been estimated on the basis of the proposals.

An estimate has been made for the transition costs of the proposed relocation of the Fire control centre to Surrey.

23. Usable Reserves

Usable reserves are those which the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000
General Fund Balance	**8,060**	7,273	11,515
Capital Receipts Reserve	**0**	0	0
Capital Grants Unapplied	**631**	660	56
Earmarked Revenue Reserve	**1,660**	3,015	2,260
Earmarked Reserves - Services	**2,524**	4,499	6,206
Schools Reserves	**583**	780	2,688
Repairs & Renewal Reserves	**864**	979	1,037
Insurance & Risk Reserve	**5,730**	4,943	4,899
Organisational Change Reserve	**1,765**	0	0
Section 106 Reserve	**1,300**	1,200	1,213
Total Usable Reserves	**23,117**	23,349	29,874

The movements on the Council's usable reserves are detailed in the Movement in the Reserves Statement and Note 9.

24. Unusable Reserves

	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000
Revaluation Reserve	**52,267**	46,661	30,811
Capital Adjustment Account	**98,637**	92,982	109,078
Financial Instruments Adjustment Account	**0**	(2,451)	(2,941)
Deferred Capital Receipts Reserve	**52**	75	81
Pensions Reserve	**(165,252)**	(270,758)	(146,706)
Collection Fund Adjustment Account	**(155)**	(32)	(85)
Accumulated Absences Account	**(2,981)**	(4,380)	(4,693)
Total Unusable Reserves	**(17,432)**	(137,903)	(14,455)

The movements on the Council's unusable reserves are detailed below.

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation or
- disposed of and the gains are realised.

Revaluation Reserve (continued)

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2009-10 £000		2010-11 £000	
30,811	Balance at 1 April		**46,661**
16,836	Upward revaluation of assets	**7,811**	
(293)	Downward revaluation of assets and impairment losses not charged to the Surplus/ Deficit on the Provision of Services	**(1,005)**	
16,543	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		**6,806**
(683)	Difference between fair value depreciation and historical cost depreciation	**(858)**	
(10)	Accumulated gains on assets sold or scrapped	**(342)**	
(693)	Amount written off to the Capital Adjustment Account		**(1,200)**
46,661	**Balance at 31 March**		**52,267**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

Unusable Reserves (continued)

Capital Adjustment Account (continued)

2009-10 £000		2010-11 £000	
109,078	Balance at 1 April		**92,982**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(22,686)	Charges for depreciation and impairment of non-current assets	**(18,296)**	
(455)	Amortisation of intangible assets	**(416)**	
(6,066)	Revenue expenditure funded from capital under statute	**(5,297)**	
154	Write-down of PFI deferred income	**154**	
(1,803)	Amounts of non-current assets written-off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	**(2,108)**	
(30,856)			**(25,963)**
693	Adjusting amounts written out of the Revaluation Reserve		**1,200**
78,915	Net written out amount of the cost of non-current assets consumed in the year		**68,219**
	Capital financing applied in the year:		
4,829	Use of Capital Receipts Reserve to finance new capital expenditure	**1,454**	
(2,887)	Reinstatement of abortive capital expenditure – Capital Receipts	**0**	
7,957	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	**16,658**	
36	Application of grants to capital financing from the Capital Grants Unapplied Account	**330**	
7,916	Statutory provision for the financing of capital investment charged against the General Fund	**8,554**	
17,851			**26,996**
(3,784)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		**3,422**
92,982	**Balance at 31 March**		**98,637**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. The Council uses the Account to manage premiums paid on early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, the original period was the unexpired term that was outstanding on the loans when they were redeemed. In order to release budget savings in 2011-12 and future years, the balance has been written-down to zero during 2010-11.

2009-10		**2010-11**	
£000		**£000's**	**£000's**
2,941	Balance at 1 April		**2,451**
(490)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	**(2,451)**	
	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		**(2,451)**
2,451	**Balance at 31 March**		**0**

Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

There is an additional cost to the Pension Fund following the early release of retirement benefits without actuarial reduction to former employees following redundancy. Under regulation and local agreement, these can be paid from service budgets within a period not exceeding five years. The amounts debited or credited to the Pension Reserve in a particular year represent either an increase or reduction in the balance deferred. The Capitalised Pension Cost figures below for both years represent a reduction in the amount owed by the Council to the Pension Fund. These figures are also included as part of the Short-term and Long-term Creditors balances in the respective years. These balances were not included in the Pension Reserve in previous years and the 1 April 2009 balance brought forward has been restated by £1.218 million.

The details relating to the top-up grant repayable to or from the Government in respect of the Fire-fighters' Pension Scheme are included in the Fire-fighters' Pension Fund Account Note.

Pension Reserve (continued)

2009-10 £000		2010-11 £000's
146,706	Balance at 1 April	**270,758**
120,716	Actuarial gains and losses on pensions assets and liabilities	**(61,372)**
18,546	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	**(29,458)**
(15,085)	Employer's pensions contributions and direct payments to pensioners payable in the year	**(14,650)**
(123)	Capitalised Pension Cost recognised in year	**(901)**
(2)	Fire-fighters' Pension Scheme – top-up grant repayable to/(from) Government	**875**
270,758	**Balance at 31 March**	**165,252**

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds gains recognised on the disposal of non-current assets but for which the cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2009-10 £000		2010-11 £000's
81	Balance at 1 April	**75**
0	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	**0**
(6)	Transfer to the Capital Receipts Reserve upon receipt of cash	**(23)**
75	**Balance at 31 March**	**52**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2009-10 £000		**2010-11 £000's**
85	Balance at 1 April	**32**
(53)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	**123**
32	**Balance at 31 March**	**155**

Accumulated Absences Account

The Accumulated Absences Account absorbs the difference that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund is neutralised by transfers to or from the Account.

2009-10		**2010-11**	
£000		**£000's**	**£000's**
4,693	Balance at 1 April		**4,380**
(4,693)	Settlement or cancellation of accrual made at the end of the preceding year	**(4,380)**	
4,380	Amounts accrued at the end of the current year	**2,981**	
(313)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements		**(1,399)**
4,380	**Balance at 31 March**		**2,981**

25. Cash Flow Statement – Operating Activities

The cash flow for operating activities includes the following items:

2009-10 £000		**2010-11 £000's**
(25,799)	Net Surplus or (Deficit) on the Provision of Services	**52,061**
31,088	Adjustment of Net Surplus or Deficit on the Provision of Services for non-cash items	**(22,629)**
(13,421)	Adjustment for items in the Net Surplus or Deficit on the Provision of Services that are Investing or Financing Activities	**(18,392)**
(8,132)	**Net cash flows from Operating Activities**	**11,040**

26. Cash Flow Statement – Investing Activities

2009-10 £000		**2010-11 £000's**
(22,689)	Capital investment	**(26,845)**
0	Purchase of short-term and long-term investments	**(6,750)**
23	Other payments for investing activities	**0**
4,830	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**1,455**
0	Proceeds from short-term and long-term investments	**0**
32,038	Other receipts from investing activities	**21,215**
14,202	**Net cash flows from investing activities**	**(10,925)**

27. Cash Flow Statement – Financing Activities

2009-10 £000		**2010-11 £000's**
1	Cash receipts of short and long-term borrowing	**920**
(1,427)	Other receipts from financing activities	**406**
(1,425)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**(1,288)**
(3,167)	Repayments of short and long-term borrowing	**(41)**
0	Other payments for financing activities	**220**
(6,018)	**Net cash flows from financing activities**	**217**

28. Cash Flow Statement – Operating Activities (Interest)

2009-10 £000		**2010-11 £000's**
13,351	Interest Received	**23,065**
(33,929)	Interest Paid	**(34,388)**

29. Amounts reported for resource allocation decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Best Value Accounting Code of Practice*. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across the directorate operational management structure. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure, whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on support services are budgeted for centrally and not charged to directorates

Following the Council's budget setting meeting for 2010-11 in February 2010, each service within a directorate was allocated a cash limited budget. Performance of spend against budget was monitored throughout the year with monthly reports being presented to budget managers and directorate service boards. In addition, quarterly summary reports were presented to Cabinet. During 2010-11, a series of regular Star Chamber sessions were initiated to monitor and critically examine the progress of savings targets. Action plans were implemented to relieve in-year pressures and these were the subject of regular detailed scrutiny.

The income and expenditure of the Council's principal directorates recorded in the budget reports for the year are as follows:

Directorate Income & Expenditure 2010-11	**Education & Children £000**	**Adult Social Services £000**	**Environment & Economy £000**	**Resources £000**	**Total £000**
Fees, charges & other service income	(9,437)	(14,137)	(12,212)	(2,777)	**(38,563)**
Government grants	(107,397)	(2,086)	(3,493)	(65,924)	**(178,900)**
Total Income	(116,834)	(16,223)	(15,705)	(68,701)	**(217,463)**
Employee costs	96,407	19,418	20,306	16,487	**152,618**
Other service costs	46,068	53,239	26,264	68,586	**194,157**
Movement on Reserves	(1,471)	689	493	(700)	**(989)**
Total Expenditure	141,004	73,346	47,063	84,373	**345,786**
Net Expenditure	24,170	57,123	31,358	15,672	**128,323**

Amounts reported for resource allocation decisions (continued)

Directorate Income & Expenditure 2009-10 Comparative figures	**Education & Children £000**	**Adult Social Services £000**	**Environment & Economy £000**	**Resources £000**	**Total £000**
Fees, charges & other service income	(7,461)	(13,895)	(12,085)	(2,816)	(36,257)
Government grants	(98,021)	(9,504)	(1,945)	(63,159)	(172,629)
Total Income	(105,482)	(23,399)	(14,030)	(65,975)	(208,886)
Employee costs	93,875	19,649	20,997	16,065	150,586
Other service costs	39,324	54,560	30,439	66,829	191,152
Movement on Reserves	(1,770)	889	(1,109)	(897)	(2,887)
Total Expenditure	131,429	75,098	50,327	81,997	338,851
Net Expenditure	25,947	51,699	36,297	16,022	129,965

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2009-10 £000	**2010-11 £000**
Net expenditure in the directorate analysis	129,965	**128,323**
Net expenditure of services and support services not included in the Analysis	50,918	**(15,622)**
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(12,198)	**49,419**
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(17,780)	**(13,661)**
Cost of Services in Comprehensive Income and Expenditure Statement	150,905	**148,459**

Amounts reported for resource allocation decisions (continued)

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2010-11	**Directorate analysis £000**	**Amounts not reported to management for decision making £000**	**Amounts not included in Comprehensive I&E Statement £000**	**Allocation of recharges £000**	**Cost of Services £000**	**Corporate Amounts £000**	**Total £000**
Fees, charges & other service income	(38,563)	(274)	0	0	(38,837)	0	(38,837)
Interest and investment income	0	0	0	0	0	(23,073)	(23,073)
Income from Council Tax	0	0	0	0	0	(72,358)	(72,358)
Government grants and contributions	(178,900)	(2,252)	0	0	(181,152)	(90,082)	(271,234)
Total income	**(217,463)**	**(2,526)**	**0**	**0**	**(219,989)**	**(185,513)**	**(405,502)**
Employee costs	152,618	12,467	(14,650)	0	150,435	(52,486)	97,949
Other service costs	194,157	5,143	0	0	199,300	874	200,174
Movement on Reserves	(989)	0	989	0	0	0	0
Support Service recharges	0	15,622	0	(15,622)	0	0	0
Depreciation, amortisation and impairment	0	18,713	0	0	18,713	0	18,713
Interest payments	0	0	0	0	0	34,388	34,388
Precepts & levies	0	0	0	0	0	1,540	1,540
Payments to Housing Capital Receipts Pool	0	0	0	0	0	1	1
Gain or loss on disposal of fixed assets	0	0	0	0	0	676	676
Total expenditure	**345,786**	**51,945**	**(13,661)**	**(15,622)**	**368,448**	**(15,007)**	**353,441**
(Surplus) or deficit on the provision of services	**128,323**	**49,419**	**(13,661)**	**(15,622)**	**148,459**	**(200,520)**	**(52,061)**

Amounts reported for resource allocation decisions (continued)

Reconciliation to Subjective Analysis

2009-10 comparatives	**Directorate analysis £000**	**Amounts not reported to management for decision making £000**	**Amounts not included in Comprehensive I&E Statement £000**	**Allocation of recharges £000**	**Cost of Services £000**	**Corporate Amounts £000**	**Total £000**
Fees, charges & other service income	(36,257)	(46)	0	0	(36,303)	(2)	(36,305)
Interest and investment income	0	0	0	0	0	(13,343)	(13,343)
Income from Council Tax	0	0	0	0	0	(70,319)	(70,319)
Government grants and contributions	(172,629)	(1,982)	0	0	(174,611)	(76,595)	(251,206)
Total income	**(208,886)**	**(2,028)**	**0**	**0**	**(210,914)**	**(160,259)**	**(371,173)**
Employee costs	150,586	7,715	(15,085)	0	143,216	0	143,216
Other service costs	191,152	3,618	0	0	194,770	4	194,774
Movement on Reserves	(2,887)	0	2,887	0	0	0	0
Support Service recharges	0	17,780	0	(17,780)	0	0	0
Depreciation, amortisation and impairment	0	23,833	0	0	23,833	0	23,833
Interest payments	0	0	0	0	0	33,858	33,858
Precepts & levies	0	0	0	0	0	1,425	1,425
Payments to Housing Capital Receipts Pool	0	0	0	0	0	1	1
Gain or loss on disposal of fixed assets	0	0	0	0	0	(135)	(135)
Total expenditure	**338,851**	**52,946**	**(12,198)**	**(17,780)**	**361,819**	**35,153**	**396,972**
(Surplus) or deficit on the provision of services	**129,965**	**50,918**	**(12,198)**	**(17,780)**	**150,905**	**(125,106)**	**25,799**

30. Trading Operations

The Best Value Accounting Code of Practice sets out categories of trading operations which authorities should consider disclosing and detailing in a note to the Accounts. For the financial year ending 31 March 2011, all such activities are included in the total cost of the relevant services and are therefore consolidated into the cost of services in the Comprehensive Income & Expenditure Statement. The amounts include depreciation, impairment and IAS 19 retirement benefit charges attributable to the particular service where applicable. In certain instances, the council may subsidise a service in order to achieve specific service objectives.

Operation	Description		£000
Industrial Units	The Council let industrial units in a variety of locations.	Turnover	108
		Expenditure	88
		Agreed contribution to/(from) General Fund:	
		2010-11	20
		2009-10	20

Markets	The Council runs Newport market and provides supervisory support for other local markets	Turnover	18
		Expenditure	11
		Agreed contribution to/(from) General Fund:	
		2010-11	7
		2009-10	6

Cowes Ferry	Cowes Floating Bridge contains the costs of providing the ferry link between East and West Cowes. Income is generated by charges for vehicles only with an estimated 1.5 million passengers carried annually.	Turnover	628
		Expenditure	566
		Agreed contribution to/(from) General Fund:	
		2010-11	62
		2009-10	47

Wightbus	Wightbus is the Council's in-house bus operation and provides home-to-school transport, adult day care transport, local bus services and private hires.	Turnover	152
		Expenditure	525
		Agreed contribution to/(from) General Fund:	
		2010-11	(373)
		2009-10	(107)

Trading Accounts (continued)

Parking Services	This service covers the enforcement of all on-street waiting restrictions and the management of Council controlled off-street parking areas. Income is derived from charges levied on users, in particular from ticket and permit sales together with penalty charge notices issued for contraventions. In accordance with the requirements of the Road Traffic Regulation Act 1984, as amended by the Traffic Management Act 2004, the Parking Account Surplus is invested in highways and public transport infrastructure and environmental improvements in the local area. During 2010-11 such investment included street lighting column replacement, concessionary fares and subsidised bus services, and traffic management improvements.	Parking Income:	
		Ticket Machine Income	2,874
		Permit Income	621
		Penalty Charge Notice Income	902
		Other Sources of Income	30
		Turnover	4,427
		Expenditure	2,729
		2010-11 Parking Account Surplus	1,698
		2009-10 Surplus	1,731

School Buy-Backs	LEA/LA Central Services purchased by schools. Schools are free to choose whether they purchase these services from the authority or from an external provider. Some service contracts, eg School meals, contain a minimum notice to terminate period. Charges are estimated in October and assumptions are made about rate of buy-back. Schools decide whether to buy-back when they receive their budgets in the following March, hence the potential for a deficit when the buy-back rate does not match that assumed in October.	Turnover	2,759
		Expenditure	2,903
		Agreed contribution to/(from) General Fund:	
		2010-11	(144)
		2009-10	(110)

Bereavement Services	Burial service and maintenance of twelve cemeteries and eleven closed churchyards, together with provision for a Crematorium service including maintenance of site and buildings. Income derived from cremation fees, charges and sales and cemetery burial fees and charges. The 2010-11 expenditure figure includes £0.160 of impairment charges.	Turnover	1,054
		Expenditure	983
		Agreed contribution to/(from) General Fund:	
		2010-11	71
		2009-10	19

Harbours and Coastal	This includes Newport and Ryde Harbours, Ventnor Haven, Folly Moorings and Whitegates Pontoon. The 2009-10 expenditure includes an impairment charge of £0.075 million in respect of Ryde Harbour.	Turnover	292
		Expenditure	366
		Agreed contribution to/(from) General Fund:	
		2010-11	(74)
		2009-10	(115)

Trading Accounts (continued)

Leisure Facilities	The running of Leisure facilities at Waterside Pool, Medina Leisure Centre, The Heights, Westridge Leisure Centre, and Rew Valley in Ventnor. These are subsidised facilities, as is the case with many similar local authorities.	Turnover	1,689
		Expenditure	3,565
		Agreed contribution to/(from) General Fund:	
		2010-11	(1,876)
		2009-10	(1,865)

Seasonal Sites	The running of tourism related sites including Browns, Shanklin Lift, Sandham Amusements and Appley Pitch & Putt.	Turnover	394
		Expenditure	334
		Agreed contribution to/(from) General Fund:	
		2010-11	60
		2009-10	(9)

31. Agency Services

Under various statutory powers an authority may agree with other local authorities, water companies and government departments to do work on their behalf. This Council did not carry out any significant agency work during 2010-11.

32. Pooled Budgets - National Health Service Act 2006 Section 75 Pooled Funds

Section 75 of the National Health Service Act 2006 enables the establishment of joint working arrangements between NHS bodies and local authorities. Pooled funds enable health bodies and local authorities to work collaboratively to address specific local health issues. Memorandum accounts have been prepared relating to pooled budget agreements between the Isle of Wight Council and Isle of Wight NHS Primary Care Trust during 2010-11. All relevant income and expenditure has been included in the Adult Social Care division of service in the Comprehensive Income and Expenditure Statement, excluding the element relating to the Isle of Wight NHS Primary Care Trust.

Pooled Budgets (continued)

Free Nursing Care - Registered Nursing Care Contribution (RNCC)
This agreement enables a single payment incorporating both the nursing and social care cost to be made to the Nursing Homes. The pooled budget arrangement is hosted by the Isle of Wight Council. The following shows the pool income, expenditure and balance as at 31 March.

	2010-11		2009-10
Amounts Received from Partners	**%**	**£000**	£000
Contribution from IW Council	**69.3**	**2,734**	2,734
Contribution from IW NHS Primary Care Trust	**30.7**	**1,212**	1,200
Total Income		**3,946**	3,934
Amount Spent from Pool	**£000**		
IWC Funded Island Clients	**3,430**		3.287
IWC Funded Mainland Clients	**198**		193
RNCC Island Placed Self Funders	**626**		524
RNCC Island Self Funders Placed by Mainland Authorities	**59**		64
Other items	**39**		42
Total Expenditure		**4,352**	4,110
Amount Remaining in Pool		**(406)**	(176)
To be shared between partners based on agreed split (actuals basis to take account of continuing care charges)			
I W Council		**(311)**	(197)
I W NHS Primary Care Trust		**(95)**	21
Total		**(406)**	(176)

Pooled Budgets - (continued)

Substance Misuse

This agreement is to provide a pooled budget and lead commissioning arrangement for Substance Misuse Services. This pooled budget arrangement is hosted by the Isle of Wight Council. The following shows the pool income, expenditure and balance as at 31 March.

	2010-11		2009-10
Amounts Received from Partners	**%**	**£000**	£000
Contribution from IW Council	**18.2**	**337**	370
Contribution from IW NHS Primary Care Trust	**81.8**	**1,510**	1,563
Total Income		**1,847**	1,933
Amount Spent from Pool	**£000**		
Actual expenditure incurred	**1,847**		1,933
Total Expenditure		**1,847**	1,933
Amount Remaining in Pool		**0**	0
To be shared between partners pro rata to contributions made		**£000**	£000
I W Council		**0**	0
I W NHS Primary Care Trust		**0**	0
Total		**0**	0

Occupational Therapy Pooled Budget

This agreement provides a seamless Occupational Therapy Service to simplify access to services for client groups and carers and further enhance delivery of safe, sound and supportive services. This pooled budget is hosted by the Isle of Wight NHS Primary Care Trust. The following shows the pool income, expenditure and balance as at 31 March.

	2010-11		2009-10
Amounts Received from Partners	**%**	**£000**	£000
Contribution from IW Council	**34.6**	**476**	484
Contribution from IW NHS Primary Care Trust	**65.4**	**901**	860
Total Income		**1,377**	1,344
Amount Spent from Pool	**£000**		
Actual expenditure incurred	**1,345**		1,295
Total Expenditure		**1.345**	1,295
Amount Remaining in Pool		**32**	49
To be shared between partners pro rata to contributions made		**£000**	£000
I W Council		**11**	18
I W NHS Primary Care Trust		**21**	31
Total		**32**	49

Pooled Budgets - (continued)

Integrated Community Equipment Store Pooled Budget
This agreement has been entered into to provide a single integrated community equipment service. The pooled budget arrangement is hosted by the Isle of Wight Council. The following shows the pool income, expenditure and balance as at 31 March.

	2010-11		2009-10
Amounts Received from Partners	**%**	**£000**	£000
Contribution from IW Council	**41.6**	**354**	361
Contribution from IW NHS Primary Care Trust	**58.4**	**499**	498
Total Income		**853**	859
Amount Spent from Pool	**£000**		
Actual expenditure incurred	**843**		854
Total Expenditure		**843**	854
Amount Remaining in Pool		**10**	5
To be shared between partners pro rata to contributions made		**£000**	£000
I W Council		**4**	2
I W NHS Primary Care Trust		**6**	3
Total		**10**	5

33. Members' Allowances

The Council paid the following amounts to members of the council during the year:

	2010-11 £000	2009-10 £000
Basic Allowance & Special Responsibility Allowances	**464**	481
Employers' National Insurance & Pension Contributions paid on behalf of members	**57**	54
Travelling & Subsistence allowance and reimbursements	**26**	32
Co-opted members	**12**	17
Total	**559**	584

34. Officers' Remuneration

The remuneration paid to the Council's senior employees is as follows:

Post	Year	Salary	Expense Allowance	Compensation of loss of office	Remuneration excluding pension contributions	Pension contributions	Remuneration including pension contributions
		£	£	£	£	£	£
Chief Executive	2010-11	149,997	1,120	0	151,117	32,999	184,116
	2009-10	149,997	2,441	0	152,438	31,499	183,937
Director of Children's & Young Peoples Service (i)	2010-11	82,754	0	55,621	138,375	18,189	156,564
	2009-10	27,559	586	0	28,145	5,787	33,932
Project Director – Schools Re-organisation (ii)	2010-11	101,460	10,001	0	111,461	22,321	133,782
	2009-10	20,728	3,500	0	24,228	4,343	28,571
Strategic Director of Community Services (iii)	2010-11	79,221	7,000	0	86,221	17,360	103,581
	2009-10	-	-	-	-	-	-
Deputy Director of Children's Social Care Services (iv)	2010-11	18,701	0	0	18,701	4,114	22,815
	2009-10	-	-	-	-	-	-
PFI Programme Director	2010-11	148,934	287	0	149,221	31,900	181,121
	2009-10	140,403	15,517	0	155,920	29,485	185,405
Director of Economy & Environment	2010-11	110,235	0	0	110,235	24,252	134,487
	2009-10	110,235	0	0	110,235	23,149	133,384
Director of Corporate Services (v)	2010-11	100,786	978	0	101,764	22,173	123,937
	2009-10	100,786	2,441	0	103,227	21,165	124,392
Strategic Director of Resources	2010-11	142,976	0	0	142,976	0	142,976
	2009-10	149,732	0	0	149,732	0	149,732

Officers' Remuneration (continued)

Post	**Year**	**Salary**	**Expense Allowance**	**Compensation of loss of office**	**Remuneration excluding pension contributions**	**Pension contributions**	**Remuneration including pension contributions**
		£	**£**	**£**	**£**	**£**	**£**
Chief Fire Officer (vi)	2010-11	96,334	1,297	0	97,631	0	97,631
	2009-10	95,715	1,278	0	96,993	10,206	107,199
Acting Director of Community Services	2010-11	92,202	0	0	92,202	20,284	112,486
	2009-10	92,352	0	0	92,352	19,362	111,714
Assistant Director of Economic Development Tourism & Leisure	2010-11	90,763	4	0	90,767	19,877	110,644
	2009-10	90,348	302	0	90,650	18,973	109,623

During 2010-11, the senior post listed below was filled by a contractual arrangement where the postholder was not a direct employee of the Council. The contractual payment will include employers' National Insurance and Pension contributions where appropriate. Employers' National Insurance contributions do not form part of preceding direct senior employee remuneration figures.

Post	**Note**	**Year**	**Contractual Payment**
Interim Head of Children's Services (Deputy Director Safeguarding)	(vii)	2010-11	161,528
		2009-10	50,464

Notes to Senior Employees Remuneration 2010-11

Note (i) The Director of Children's & Young Peoples Services commenced employment on 1 January 2010 at an annualised salary of £110,235. The postholder left the authority on 1 January 2011 due to redundancy. The annualised salary for 2010-11 was £110,235.

Note (ii) The Project Director - Schools Reorganisation commenced employment on 18 January 2010 at an annualised salary of £101,460.

Note (iii) The Strategic Director of Community Services commenced employment on 16 August 2010 at an annualised salary of £125,982.

Note (iv) The Deputy Director of Children's Social Care Services commenced employment on 17 January 2011 at an annualised salary of £90,348.

Note (v) The Director of Corporate Services works 4 days per week. The whole time equivalent salary is £125,982.

Note (vi) The Chief Fire Officer's pension contributions ceased from 1 October 2009.

Note (vii) The contract for the Interim Head of Children's Services (Deputy Director Safeguarding) commenced on 4 January 2010 and ended on 14 January 2011.

Officers' Remuneration (continued)

The Council's other employees (including teachers) receiving more than £50,000 remuneration for the year (excluding employer's pension contributions but including termination payments where applicable) were paid the following amounts:

Remuneration Band	**2010-11 Number of Employees Total**	2009-10 Number of Employees Total
£50,000 to £54,999	**43**	51
£55,000 to £59,999	**46**	29
£60,000 to £64,999	**16**	15
£65,000 to £69,999	**10**	12
£70,000 to £74,999	**7**	8
£75,000 to £79,999	**7**	2
£80,000 to £84,999	**4**	5
£85,000 to £89,999	**3**	1
£90,000 to £94,999	**3**	4
£95,000 to £99,999	**1**	0

35. External Audit Costs

The Council incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections by the Council's external auditors.

	2010-11 £000	2009-10 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	**357**	344
Fees payable to the Audit Commission in respect of statutory inspections	**0**	18
Fees payable to the Audit Commission for certification of grant claims and returns for the year	**45**	49
Fees payable in respect of other services provided by the appointed auditor during the year	**0**	0
Total	**402**	411

The payments made for the certification of grant claims relates to work carried out during the year of account, but is in respect of claims made in the previous financial year.

36. Dedicated Schools Grant

The council's expenditure on schools is funded by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Dedicated Schools Grant (continued)

Details of the deployment of DSG receivable for 2010-11 are as follows:

	Deployment of Dedicated Schools Grant		
	Central Expenditure £000	**Individual Schools Budget (ISB) £000**	**Total £000**
Final DSG for 2010-11	-	-	76,371
Brought forward from 2009-10	-	-	(143)
Carry-forward to 2011-12 agreed in advance	-	-	0
Agreed budget distribution in 2010-11	10,575	65,653	76,228
Actual central expenditure	11,110	-	-
Actual ISB deployed to schools	-	66,353	-
Local authority contribution for 2010-11	0	0	0
Carry forward of overspend to 2011-12	(535)	(700)	(1,235)

37. Grant income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement:

Credited to Taxation and Non Specific Grant Income	**2010-11 £000**	2009-10 £000
Revenue Grants:		
Formula Grant	**(61,397)**	(59,129)
Area Based Grant	**(13,005)**	(8,489)
Waste PFI grant	**(1,248)**	(1,248)
Local Area Agreement Performance Reward Grant	**0**	(584)
Housing & Planning Delivery grant	**0**	(799)
Local Authority Business Growth Incentive grant	**0**	(103)
Capital Grants:		
Department for Education grants	**(10,874)**	(2,662)
Sure Start grant	**(847)**	(780)
Local Transport Plan grant	**(86)**	(649)
Fire Service grant	**(559)**	(531)
Other capital grants	**(2,066)**	(1,621)
Total	**(90,082)**	(76,595)

Grant Income (continued)

In 2010-11, a number of government grants that were previously ringfenced to specific services and credited directly to services, were re-designated as Area Based Grant which is available for the Council to spend according to its own priorities.

The increase in the Department for Education capital grants is principally relates to the Cowes High School 'One School Pathfinder' scheme, together with projects to upgrade Primary Schools.

Credited to Services	**2010-11 £000**	2009-10 £000
Dedicated Schools Grant	**(76,371)**	(74,162)
Schools Standards Grant & Schools Standard Fund	**(13,128)**	(11,236)
Sure Start Grant	**(4,060)**	(3,516)
Sixth Form funding grant	**(10,745)**	(7,583)
Supporting People grant	**(270)**	(8,252)
Rent Allowance & Rent Rebates subsidy	**(51,250)**	(48,734)
Council Tax Benefit subsidy	**(13,095)**	(12,770)
Housing Benefit & Council Tax Benefit administration grant	**(1,512)**	(1,631)
Concessionary Fares	**(1,776)**	(868)
Other Revenue grants	**(6,692)**	(3,877)
Revenue Expenditure Funded by Capital Under Statute (REFCUS):		
Private Sector Renewal	**(534)**	(603)
Disabled Facilities grant	**(618)**	(515)
Department for Education REFCUS grants	**(810)**	(400)
Other REFCUS grants	**(291)**	(464)
Total	**(181,152)**	(174,611)

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the money or property to be returned to the giver. The balances at year-end are as follows:

Capital Grants & Contributions Receipts in Advance	**2010-11 £000**	2009-10 £000
Department for Education grants	**(45,934)**	(41,646)
Other grants	**(657)**	(395)
Contributions	**(801)**	(730)
Total	**(47,392)**	(42,771)

Grant Income (continued)

Revenue Grants & Contributions Receipts in Advance	**2010-11 £000**	2009-10 £000
Housing Benefit subsidy	**(690)**	0
Schools Standards Grant & Schools Standard Fund	**(204)**	(1,196)
Business, Innovation & Skills (Learning & Skills Council) grants	**(320)**	(554)
Other Schools grants	**(664)**	(278)
Other grants	**(17)**	(177)
Section 106 contributions	**(774)**	(829)
Total	**(2,669)**	(3,034)

38. Related Parties Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government
Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (eg council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 29 on reporting resources allocation decisions. Grant receipts outstanding at 31 March 2011 are shown in Note 37.

Members
Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2010-11 is shown in Note 33. During 2010-11, works and services to the value of £0.167 million were commissioned from companies in which seven members had an interest. Contracts were entered into in full compliance with the Council's standing orders. In addition, the Council paid £0.527 million to voluntary and charitable organisations in which ten members had been nominated by the Council to hold positions on the governing body. The Leader of the Council also has an interest in an organisation which received housing benefit income of £0.076 million relating to accommodation provided to individuals who have an entitlement regardless of the relationship. In all instances, the payments were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the payments. Details of all these transactions are recorded in the Register of Members' Interest, open for public inspection at County Hall, Newport, Isle of Wight. PO30 1UD.

Officers
Senior officers are required to make a declaration of interests in connection to their post. There are no specific disclosures for 2010-11 in respect of related party transactions. During the course of the financial year there have been arrangements relating to certain senior posts. These by their nature could imply an involvement in related party transactions and the Council has been careful to ensure that robust arrangements are in place and that correct procurement and recruitment procedures have been followed in each case.

Other Public Bodies (subject to common control by central government)
Transactions with the Isle of Wight NHS Primary Care Trust in respect of the Pooled Budget arrangements are shown in Note 32.

Related Parties Transactions (continued)

Pension Fund
During the financial year, the pension fund had an average balance of £0.373 million of surplus cash deposited with the Council. The Council paid the fund a total of £0.001 million interest on these deposits. The Council charged the fund £0.384 million for expenses incurred in administering the fund.

Entities controlled or significantly influenced by the Council
The Council does not own shares in any Trusts or Companies that would constitute significant control or influence. Similarly, where representatives are appointed to Trusts or Company boards, they are in the minority and have limited ability to significantly influence or control decisions on policy or operations by that Trust or Company. All nominations of elected members are approved annually through Full Council and a regular review of the approach to nominations is undertaken. Any such nominations are included on individual elected members' declarations of interests which can be viewed at County Hall, Newport, Isle of Wight PO30 1UD.

39. Group Accounts

For the 2010-11 financial year, there are no entities where the Council's interest is such that it would give rise to the requirement to prepare Group Accounts. This position is reviewed and updated on an annual basis.

40. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

Capital expenditure and capital financing (continued)

	2010-11 £000	2009-10 £000
Opening Capital Financing Requirement	**186,006**	176,696
Capital Investment:		
Waste PFI assets brought onto Balance Sheet	**0**	1,072
Finance lease assets brought onto Balance Sheet	**552**	56
Property, Plant and Equipment	**25,442**	22,806
Investment Properties	**120**	703
Intangible Assets	**391**	473
Assets Held for Sale	**13**	0
Revenue Expenditure funded from Capital under Statute	**5,297**	6,066
Sources of Finance:		
Capital Receipts	**(1,454)**	(4,829)
Government grants and other contributions	**(16,988)**	(7,993)
Finance lease	**(552)**	(358)
Deferred Income	**0**	(770)
Statutory Charge to Revenue:- past expenditure	**(7,682)**	(7,077)
Statutory Charge to Revenue:- Waste PFI	**(872)**	(839)
Closing Capital Financing Requirement	**190,273**	186,006
Explanation of Movements in Year		
Increase in underlying need to borrow (supported by government financial assistance)	**2,045**	5,767
Increase in underlying need to borrow (unsupported by government financial assistance)	**2,222**	3,543
Increase/decrease in Capital Financing Requirement	**4,267**	9,310

41. Leases

Council as Lessee

The Council has acquired Vehicles, Plant, Furniture and Equipment assets under finance leases. The rentals payable under these arrangements in 2010-11 were £0.348 million (£0.342 million in 2009-10), charged to the Comprehensive Income and Expenditure Account as £0.085 million finance costs (charged to interest payable) and £0.263 million relating to the write-down of obligations to the lessor (charged as part of the appropriation to the Capital Adjustment Account in the Movement in Reserves Statement). Finance lease rentals extending beyond the primary lease period are treated as contingent rent, as the future use of the asset at the inception of the lease agreement in unknown. Contingent rentals are expensed in the year and in 2010-11 the rental was £0.055 million (£0.044 million in 2009-10). Financial resources for contingent rentals are provided through a budget based upon estimated demand and approved as part of the Council's annual budget process.

Carrying amount of assets

	31 March 2011 £000	31 March 2010 £000
Balance at 1 April	**1,174**	1,374
Additions	**552**	56
Depreciation	**(243)**	(256)
Disposal	**(2)**	0
Balance at 31 March	**1,481**	1,174

Liability

	Minimum Lease Payments		**Present value of minimum lease payments**	
	31 March 2011 £000	31 March 2010 £000	**31 March 2011 £000**	31 March 2010 £000
Not later than one year	**416**	319	**304**	234
Later than one year and not later than five years	**1,286**	1,015	**1,034**	812
Later than five years	**992**	1,010	**368**	371
	2,694	2,344	**1,706**	1,417
Less: future finance charges	**(988)**	(927)	**-**	-
Total	**1,706**	1,417	**1,706**	1,417

Included in:	**31 March 2011 £000**	31 March 2010 £000
Current borrowings	**304**	234
non-current borrowings	**1,402**	1,183
Total	**1,706**	1,417

Leases (continued)

Operating Leases

The Council has the right to use Vehicles, Plant, Furniture and Equipment assets financed under the terms of operating leases. The rentals payable under these arrangements in 2010-11 were £2.673 million (£2.789 million in 2009-10), charged to the Comprehensive Income and Expenditure Statement. The Council leases properties for Homelessness accommodation for a duration of between three and five years from private landlords. The Council receives income towards the costs of these operating leases from Housing Benefits and other contributions. Such contributions credited to the Comprehensive Income and Expenditure Statement in 2010-11 amounted to £0.760 million (£0.722 million on 2009-10).

It has not been possible to analyse the operating lease payments from the service element for the Grounds Maintenance contract. The payments for this contract have been included in the lease payments total.

The future minimum lease payments due under non-cancellable leases in future years are:

Leases expiring	**31 March 2011 £000**	31 March 2010 £000
Not later than one year	**1,431**	2,123
Later than one year and not later than five years	**2,491**	3,300
Later than five years	**1,052**	1,403
Total	**4,974**	6,826

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2010-11 £000	2009-10 £000
Minimum lease payments	**2,669**	2,782
Contingent rents	**4**	7
Total	**2,673**	2,789
Sub-lease income receivable	**(760)**	(722)
Total	**1,913**	2,067

Council as Lessor

The Council has leased out property to third parties under the terms of operating leases. The rentals received under the arrangements in 2010-11 was £0.703 million (£0.773 million in 2009-10), credited to the Comprehensive Income and Expenditure Statement. Lease agreements on a weekly, monthly and annual basis are excluded from minimum lease payments.

The Council leases out property and equipment under operating leases for the following purposes:-

- For the provision of community services, such as sports facilities, tourism services and community centres
- For economic development purposes to provide suitable affordable accommodation for local businesses.

Leases (continued)

The future minimum lease payments receivable under non-cancellable leases in future years are:

	Minimum Lease Payments	
	31 March 2011 £000	31 March 2010 £000
Not later than one year	**482**	689
Later than one year and not later than five years	**1,581**	1,736
Later than five years	**15,399**	15,726
Total	**17,462**	18,151

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010-11 £0.035 million contingent rents were received by the Council (2009-10 £0.032 million).

42. Private Finance Initiatives and Similar Contracts

Waste PFI Contract

The Council entered into a long-term contract with Island Waste Services Ltd under the government's Private Finance Initiative (PFI) scheme in 1997. The contract, which was for a fully integrated waste collection, waste disposal and recycling service commenced on 27 October 1997 and was intended to be for a 12 year period to end in October 2009; subsequently the contract was extended by 6 years and is now due to end on 26 October 2015. The value of the contract is in excess of £95 million over the 18 year period. The additional costs of this integrated waste management project, over and above the Council's existing budgetary provision for waste management, is met though government funding (PFI credits).

Within the Waste PFI contract, the Council has acquired fixed assets under a finance lease arrangement. The rentals payable under these arrangements in 2010-11 was £1.174 million (£1.174 million in 2009-10), charged to the Comprehensive Income and Expenditure Statement as £0.302 million finance cost (charged to Interest Payable) and £0.872 million relating to the write-down of obligations to the lessor which has been charged as part of the appropriation to the Capital Adjustment Account in the Movement in Reserves Statement.

Private Finance Initiatives and Similar Contracts (continued)

The following values of assets are held under finance leases by the Council, accounted for as part of Property, Plant and Equipment:-

	2010-11 £000	2009-10 £000
Value at 1 April	**3,924**	8,161
Additions	**0**	1,072
Revaluations	**47**	787
Depreciation	**(932)**	(1,215)
Impairment	**0**	(4,861)
Disposals	**0**	(20)
Total assets at 31 March	**3,039**	3,924

During 2010-11, Island Waste invested more than the contract profile. The excess of this expenditure of £0.462 million (£0.616 million in 2009-10) is treated as an asset with the corresponding entry credited to deferred income. The profile of this deferred income at 31 March 2011 accounted for as short or long-term liabilities are as follows:-

	2010-11 £000	2009-10 £000
Not later than one year	**154**	123
Later than one year and not later than five years	**308**	493
Total	**462**	616

The movement in the finance rental at 31 March, accounted for as long-term liabilities are as follows:-

	2010-11 £000	2009-10 £000
Value at 1 April	**4,929**	5,466
Finance additions	**0**	302
Finance charge	**302**	335
Finance lease rental	**(1,174)**	(1,174)
Finance lease outstanding at 31 March	**4,057**	4,929

Outstanding obligations to make payments under the Waste PFI scheme at 31 March 2011, separated into repayments of liability, interest and service charges are as follows:-

	Repayment of liability £000	Interest £000	Service Charges £000	**Total £000**
Not later than one year	926	249	5,316	**6,491**
Later than one year and not later than five years	3,131	391	21,263	**24,785**
Total	**4,057**	**640**	**26,579**	**31,276**

43. Impairment Losses

During 2010-11, the Council has recognised an impairment loss of £2.182 million in relation to Land and Buildings within Property Plant and Equipment. The most significant impairment losses relate to building assets at Ryde Westridge Centre, £0.436 million and Carisbrooke CE Primary School, £0.223 million. The most significant impairments relating to land are Shanklin Landguard Road Car Park, £0.274 million and Ventnor Botanic Gardens Car Park £0.189 million.

During 2010-11, the Council has recognised an impairment loss of £0.160 in relation to Community Assets within Property Plant and Equipment. The impairment related to Ryde West Street Cemetery.

During 2010-11, the Council has recognised an impairment loss of £0.100 in relation to Surplus Assets within Property Plant and Equipment. The impairment related to Newport Standen Heath Farm House.

Asset valuations are based upon a number of factors such as condition of buildings and likely useful life and income generation estimates from use of land based assets. The recoverable amount of these assets has been reduced to their current value as estimated by a professional valuer using either depreciated replacement cost where there is no market for such assets as Schools, all other assets are based on fair value existing use to the Authority and the impairment loss charged to the Comprehensive Income and Expenditure Statement.

44. Termination Benefits

The Council terminated the contracts of a number of employees in 2010-11, incurring liabilities of £3.364 million. (£1.309 million in 2009-10).

This increase results from the reduction in the amount of Central Government grant allocated to the Council arising from the 2010 Comprehensive Spending Review. The Council's 2011-12 budget strategy identified savings from posts which would be the subject of voluntary or compulsory redundancy.

The £3.364 million includes costs incurred in 2010-11, together with accruals where staff had received a termination letter from the Council on or before 31 March 2011, and a provision for those staff identified as 'at risk' and for whom a reasonable estimate of likely costs could be made.

45. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the authority are members of the Teachers' Pension Scheme, administered by the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2010-11, the council paid £5.798 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2009-10 were £5.678 million and 14.1%). There were no contributions remaining payable at year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are accounted for on a defined benefit basis and detailed in Note 46.

46. <u>Defined Benefit Pension Schemes</u>

<u>Participation in pension schemes</u>

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in two post employment schemes:

- The Local Government Pension Scheme is administered by the Council and is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- the Fire-Fighters' Pension Scheme is administered by the Council and is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. The authority and employees pay contributions into a fund from which pension payments are made. Under the Firefighters' Pension Scheme (Amendment)(England) Order 2006, the fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payment, while any surplus in the fund is repayable to Central Government. Regular firefighters employed before 6 April 2006 were eligible for membership of the Firefighters' Pension Scheme (FPS). This scheme is now closed. A New Firefighters' Pension Scheme (NFPS) was introduced for regular and retained firefighters employed since 6 April 2006. For the purpose of the disclosures shown on the following pages, these two schemes have been combined.

<u>Transactions relating to Post-employment Benefits</u>

The cost of retirement benefits are recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge made against the council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Defined Pension Schemes (continued)

	Local Government Pension Scheme £000		Firefighters' Pension Scheme £000		Total £000	
	2010-11	2009-10	**2010-11**	2009-10	**2010-11**	2009-10
Cost of services:						
Current Service cost	**(12,468)**	(6,644)	**(1,200)**	(700)	**(13,668)**	(7,344)
Past service costs	**45,595**	(669)	**5,700**	-	**51,295**	(669)
Fire Service injury pensions	**-**	-	**300**	300	**300**	300
Settlements and Curtailments	**(208)**	(438)	**0**	0	**(208)**	(438)
Financing and Investment Income and Expenditure						
Interest cost	**(25,033)**	(20,848)	**(2,600)**	(2,400)	**(27,633)**	(23,248)
Expected return on assets	**19,372**	12,853	**-**	-	**19,372**	12,853
Top-up grant repayable (to)/from Government	**-**	-	**(875)**	2	**(875)**	2
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**27,258**	(15,746)	**1,325**	(3,398)	**28,583**	(19,144)
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement						
Actuarial gains and losses	**59,672**	(105,716)	**1,700**	(15,000)	**61,372**	(120,716)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**86,930**	(121,462)	**3,025**	(17,798)	**89,955**	(139,260)
Movement in Reserves						
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	**(41,208)**	2,261	**(2,900)**	1,200	**(44,108)**	3,461
Top-up grant repayable to/(from) Government	**-**	-	**875**	(2)	**875**	(2)
Actual amount charged against the General Fund Balance for pensions in the						
Employers' contributions payable to the scheme (including unfunded benefits)	**13,950**	13,485	**-**	-	**13,950**	13,485
Retirement benefits payable to pensioners (net of member contributions)	**-**	-	**700**	1,600	**700**	1,600

The cumulative amount of actuarial losses recognised in the Comprehensive Income and Expenditure Statement is £90.343 million.

Defined Pension Schemes (continued)

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded liabilities: Local Government Pension Scheme £000		**Unfunded liabilities: Fire-fighters' Pension Scheme £000**		**Total £000**	
	2010-11	2009-10	**2010-11**	2009-10	**2010-11**	2009-10
Opening balance at 1 April	**(489,718)**	(303,106)	**(52,200)**	(36,000)	**(541,918)**	(339,106)
Current service cost	**(12,468)**	(6,644)	**(1,200)**	(700)	**(13,668)**	(7,344)
Interest cost	**(25,033)**	(20,848)	**(2,600)**	(2,400)	**(27,633)**	(23,248)
Contributions by scheme participants	**(3,716)**	(3,753)	**(300)**	(200)	**(4,016)**	(3,953)
Actuarial gains and (losses)	**55,592**	(167,732)	**1,700**	(15,000)	**57,292**	(182,732)
Estimated Unfunded Benefits paid	**1,278**	1,255	-	-	**1,278**	1,255
Benefits paid	**13,304**	12,217	-	-	**13,304**	12,217
Pensions and lump sum expenditure	-	-	**1,200**	1,800	**1,200**	1,800
Transfers in from other schemes	**-**	-	**(200)**	0	**(200)**	0
Injury Award expenditure	**-**	-	**300**	300	**300**	300
Past service costs	**45,595**	(669)	**5,700**	-	**51,295**	(669)
Losses on curtailment	**(208)**	(438)	-	-	**(208)**	(438)
Sub total	**(415,374)**	(489,718)	**(47,600)**	(52,200)	**(462,974)**	(541,918)
Movement on Top-up grant creditor	**-**	-	**(174)**	0	**(174)**	0
Closing balance at 31 March	**(415,374)**	(489,718)	**(47,774)**	(52,200)	**(463,148)**	(541,918)

Defined Pension Schemes (continued)

Reconciliation of fair value of the scheme assets:-

	Local Government Pension Scheme		Fire-fighters' Pension Scheme		Total	
	£000		£000		£000	
	2010-11	2009-10	**2010-11**	2009-10	**2010-11**	2009-10
Opening balance at 1 April	**271,554**	192,919	**0**	0	**271,554**	192,919
Expected rate of return	**19,372**	12,853	**-**	-	**19,372**	12,853
Actuarial gains and losses	**4,080**	62,016	**-**	-	**4,080**	62,016
Contributions by scheme participants	**3,716**	3,753	**300**	200	**4,016**	3,953
Employer contributions	**12,672**	2,230	**700**	1,600	**13,372**	13,830
Transfers in from other schemes	**-**	-	**200**	0	**200**	0
Contributions towards injury pensions	**-**	-	**300**	300	**300**	300
Contributions in respect of Unfunded Benefits paid	**1,278**	1,255	-	-	**1,278**	1,255
Unfunded Benefits paid	**(1,278)**	(1,255)	-	-	**(1,278)**	(1,255)
Benefits paid	**(13,304)**	(12,217)	-	-	**(13,304)**	(12,217)
Pensions and lump sum expenditure	-	-	**(1,200)**	(1,800)	**(1,200)**	(1,800)
Injury award expenditure	-	-	**(300)**	(300)	**(300)**	(300)
Sub total	**298,090**	271,554	**0**	0	**298,090**	271,554
Opening balance of top-up grant debtor	-	-	**701**	699	**701**	699
Movement on Top-up grant debtor	-	-	**(701)**	2	**(701)**	2
Closing balance at 31 March	**298,090**	271,554	**0**	701	**298,090**	272,255

Defined Pension Schemes (continued)

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £24.332 million (2009-10: £74.927 million).

Scheme History (of actuarial valuations excluding top-up grants)

	2006-07 £000	2007-08 £000	2008-09 £000	2009-10 £000	2010-11 £000
Present value of liabilities:					
Local Government Pension Scheme	(327,422)	(305,970)	(303,107)	(489,718)	**(415,373)**
Firefighters' Pension Scheme	(38,600)	(33,700)	(36,000)	(52,200)	**(47,600)**
Fair value of assets in the Local Government Pension Scheme	232,097	233,789	192,919	271,554	**298,089**
Surplus/(deficit) in the scheme:					
Local Government Pension Scheme	(95,325)	(72,181)	(110,188)	(218,164)	**(117,284)**
Firefighters' Pension Scheme	(38,600)	(33,700)	(36,000)	(52,200)	**(47,600)**
Total	(133,925)	(105,881)	(146,188)	(270,364)	**(164,884)**

The above totals exclude the Fire-fighters' Scheme Top-up grant repayable by central government. At 31 March 2011 £0.174 million has been included within the preceding assets statement as a creditor (2009-10 debtor of £0.701 million).

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability of £164.884 million has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in an overall balance of £5.685 million.

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (ie before payments fall due), as assessed by the scheme actuary

  Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

- in-year deficits on the Fire-fighters' pension fund are reimbursed by Government grant.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2012 is £12.361 million. Due to the unfunded nature of the Fire-fighters' Pension Scheme, the contributions in the year to 31 March 2012 made by the council will be dependant on the benefits paid in the year, the employee contributions and transfers-in received.

Defined Pension Schemes (continued)

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on the actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the Local Government Scheme being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used the actuary have been:

	Local Government Pension Scheme		**Fire-fighters' Pension Scheme**	
	2010-11	2009-10	**2010-11**	2009-10
Long-term expected rate of return on assets in the scheme:				
Equity investments	**7.5%**	7.8%	**-**	-
Bonds	**4.9%**	5.0%	**-**	-
Property	**5.5%**	5.8%	**-**	-
Cash	**4.6%**	4.8%	**-**	-
Mortality assumptions: (at age 65 for Local Government Scheme and at age 60 for Fire-fighters' scheme):				
Longevity for current pensioners (years):				
Men	**22.9**	20.8	**27.9**	27.6
Women	**25.7**	24.1	**30.8**	31.0
Longevity for future pensioners (years):				
Men	**24.9**	22.3	**29.5**	29.2
Women	**27.7**	25.7	**32.3**	32.7
Pension increase rate (CPI)	**2.8%**	3.8%	**2.8%**	3.8%
Market derived RPI	**3.6%**	3.8%	**3.6%**	3.8%
Rate of increase in salaries	**5.1%**	5.3%	**4.6%**	5.3%
Expected return on assets	**6.8%**	7.1%	**-**	-
Rate for discounting scheme liabilities	**5.5%**	5.5%	**5.5%**	5.5%
Commutation assumptions:-				
Take-up of option to convert annual pension into retirement lump sum – pre April 2008 service	**25%**	25%	-	-
Take-up of option to convert annual pension into retirement lump sum – post April 2008 service	**63%**	63%	-	-
Take-up of option to convert annual pension into retirement lump sum	-	-	**90%**	90%

The Fire-fighters' Pension Scheme has no assets to cover its liabilities.

Defined Pension Schemes (continued)

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held.

	31 March 2011 %	31 March 2010 %
Equity investments	**72**	72
Bonds	**21**	22
Property	**5**	5
Cash	**2**	1
Total	**100**	100

History of experience gains and losses

The actuarial gains identified as movements on the Pension Reserve in 2010-11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March of each year.

Local Government Pension Scheme

	2006-07	2007-08	2008-09	2009-10	**2010-11**
	%	%	%	%	%
Differences between the expected and actual return on assets	0.98	(7.10)	(24.22)	29.60	**1.39**
Experience gains and losses on liabilities	(0.16)	2.59	0.00	0.12	**(5.16)**

Fire-Fighters' Pension Scheme

	2006-07	2007-08	2008-09	2009-10	**2010-11**
	%	%	%	%	%
Differences between the expected and actual return on assets	-	-	-	-	**-**
Experience gains and losses on liabilities	(0.52)	(0.30)	6.67	3.64	**(0.63)**

47. Contingent Liabilities

The Council has indemnified the South Wight Housing Association in respect of the cost of any defects that would have led to a reduction in the transfer valuation of the former South Wight Borough Council housing stock, had a full survey been made on an individual property basis. The potential liability has not been quantified, but since the time elapsed since the transfer is now twenty years, there is a diminishing probability of a claim against the Council.

In addition, there are a number of legal matters pending which could potentially incur costs of up to £0.268 million. These sums have been included as part of the risk assessment of the fund held against non-insurable risks.

48. Nature and extent of risks arising from financial instruments

The Council's activities expose it to a variety of risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the Council
- liquidity risk – the possibility that the Council might not have the funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. The procedures for risk management are set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and the Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting;
  - the Council's overall borrowing
  - its maximum and minimum exposures to fixed and variable rates
  - the maturity structure of its debt
  - its maximum annual exposures to investments maturing beyond one year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget meeting. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial located within each category.

The credit criteria in respect of financial assets held by the Council are as detailed below:

- rating of A2 or better
- stable credit rating outlook

Nature and extent of risks arising from financial instruments (continued)

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £4 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2011 that this was likely to crystalise.

The following analysis summarises the Council's potential maximum exposure to credit risk on other financial assets, based on experience on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31 March 2011	**Historical experience of default**	**Historical experience adjusted for market conditions at 31 March 2011**	**Estimated maximum exposure to default & uncollectability at 31 March 2011**	Estimated maximum exposure at 31 March 2010
	A	**B**	**C**	**(A x C)**	
	£000	**%**	**%**	**£000**	£000's
Deposits with banks and financial institutions	17,162	0.00	0.00	0	0
Customers	4,631	3.64	19.87	920	698
Other Debtors	8,351	0.00	0.00	0	0
Total				**920**	698

The Other Debtors figure includes £1.977 million of Deferred Payments made in respect of care fees for clients in residential or nursing homes under the terms of both Section 22 of the Health and Social Services and Social Security Adjudications Act 2003 and Section 55 of the Health and Social Care Act 2001. The legislation allows the Council to place a legal charge or to register an interest on the client's property and consequently the debt is covered by the value of the property.

The Council's exposure to credit risk is managed in accordance with its annual Treasury Management Strategy which for 2010-11 was approved by the Council in February 2010. Amongst other controls, the Strategy sets out the arrangements for managing credit risk (ie the risks of borrowers defaulting). The main controls used are:

- Using credit ratings to assess the credit standing of borrowers
- Defining a list of borrowers to which the Council considers it secure to lend (the lending list)
- Defining limits to its exposure to any one institution or group of institutions
- Defining time limits as to how long the Council will lend to particular institutions

In ordinary circumstances, these controls once set are sufficient to manage any credit risk. However due to the ongoing global economic situation, it has been necessary to monitor these controls more closely, including the following:

Nature and extent of risks arising from financial instruments (continued)

- Credit ratings and outlook for each borrower are continuously monitored and reviewed on a weekly basis
- The lending list is reviewed as a result of credit ratings analysis and other intelligence information.
- Borrowers' limits are changed in accordance with those reviews (in 2010-11 some borrowers have been removed from the list, whilst others have had their limits reduced).
- The Council has used the UK Debt Management Office's Debt Management Account Deposit Facility (DMADF) to deposit surplus funds , rather than be exposed to the credit risk of commercial institutions
- The strategy for treasury management activity is reviewed by the Strategic Director of Resources, Head of Financial Management and other senior finance officers on a monthly basis. Appropriate actions have been taken as a result of those reviews
- A 'weekly loans report' is produced and reported to the Strategic Director of Resources.

The Council's Treasury Management Strategy approved on 24 February 2010 is located on the following link to the Council's website:-

http://www.iwight.com/council/committees/mod-council/24-2-10/Paper%20B%20-%20Appendix%2014.pdf

No credit limits were exceeded during the reporting period and the Council does not expect any losses from any of its counterparties in relation to deposits. The amount shown as the exposure due to default and uncollectability is covered by the Allowance for Bad Debts.

The authority does not generally allow credit for customers, such that £5.118 million is due for payment at 31 March 2011 from invoices raised through the Council's accounts receivable system. This amount due can be analysed by age as follows:

	31 March 2011 £000	31 March 2010 £000
Less than two months	**3,080**	3,408
Two to six months	**395**	236
Six months to one year	**683**	588
More than one year	**960**	803
Total	**5,118**	5,035

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements occur, the Council has ready access to borrowings from the money market and the Public Works Loan Board (PWLB). There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure the careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The Council has three Lender Option/Borrower Option (LOBO) loans for a total of £9 million. Under the arrangement for these LOBO loans, the lenders have the option to increase the interest rate each year. If the lenders were to increase the interest rate, the authority has the right to repay the loan without penalty. In this case, it is possible that the Council would have to pay higher interest if it chose to replace the loan. None of the lenders have exercised their option to change the interest rate.

Nature and extent of risks arising from financial instruments (continued)

With the exception of £1.427 million held on behalf of the Isle of Wight Council Pension Fund and various Trust Funds, the remainder of the Council's borrowing consists of fixed rate PWLB debt. The PWLB allows debt to be rescheduled prior to maturity, although this may necessitate paying a premium to PWLB.

The maturity analysis of financial liabilities for External Borrowing is as follows:

	31 March 2011 £000	31 March 2010 £000
Less than one year	**12,682**	10,800
Between one and two years	**0**	1,000
Between two and five years	**4,000**	1,500
Between five and ten years	**28,000**	24,500
Between ten and fifteen years	**29,288**	29,700
Between fifteen and twenty years	**32,600**	33,188
Between twenty and twenty five years	**17,000**	22,000
More than twenty five years	**1,000**	1,000
Total External Borrowing	**124,570**	123,688
Of which, Public Works Loan Board (PWLB)	**114,007**	114,007

The maturity analysis of the LOBO loans is shown below. These loans are included in the 'Less than one year' category above, together with accrued interest at 31 March and some other temporary loans held for internal cash management purposes.

Amount (£000)	**Interest rate (%)**	**Final Maturity Date**
1,000	6.65	24/09/2012
3,000	5.34	19/11/2013
5,000	4.27	25/11/2041

The Council has deferred liabilities arising from a capital grant repayment, the Integrated Waste PFI scheme and the acquisition of fire service vehicles under finance leases.

The most significant Deferred Liability relates to the Integrated Waste PFI scheme (£4.519 million at 31 March 2011). As the additional costs of this project, over and above the Council's existing budgetary provision for waste management, is met through government funding (PFI credits), there is no significant risk that the authority will be unable to raise finance to meet its commitments to the PFI contractor.

The maturity analysis of financial liabilities for deferred liabilities is as follows:

	31 March 2011 £000	31 March 2010 £000
Less than one year	**1,585**	1,433
Between one and two years	**1,633**	1,509
Between two and five years	**3,445**	4,455
More than five years	**368**	371
Total	**7,031**	7,768

All other payables are due to be paid in less than one year.

Financial Instruments (continued)

Market Risk

Interest rate risk – the Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise.
- borrowings at fixed rates – the fair value of the liability borrowing will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy, a prudential indicator is set which provides minimum and maximum limits for fixed and variable rate exposure. There is an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and market and forecast interest rates are monitored within the year to allow any adverse changes to be accommodated by adjusting exposures appropriately. The analysis will also advise whether new borrowing taken out is fixed or variable. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grants payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

According to this assessment strategy, at 31 March 2011, if interest rates had been 1% higher with all other variables held constant, the financial effect would have been an increase in investment income of £0.322 million. The impact of a 1% fall in interest would be as above, but with the movements being reversed. However, as investment interest rates remained below 1% for the duration of 2010-11, the impact would have been limited to the actual amount of investment income received (£0.165 million). All external borrowing is at fixed rates and so an increase or decrease in general interest rates would have no impact on the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. However, such a change would increase or decrease the fair value of fixed rate borrowing liabilities.

Price Risk

The Council has no equity shares or shareholdings. It therefore has no exposure to loss arising from movements in share prices.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

49. Trust Funds and Other Balances

The Council administers a number of trust funds and balances on behalf of others which are not included in the Balance Sheet. These include cash held in safekeeping for residents of old peoples' homes and amenities funds set up to provide facilities at particular establishments from the proceeds of fund raising and bequests. The main Trust Funds are as follows:-

- The Brenda James Trust Fund, which was established with the object of the advancement of music education on the Isle of Wight for the benefit of pupils and young musicians, has a balance of £0.095 million at 31 March 2011 (£0.102 million on 31 March 2010).
- The charity of Tom Woolgar which was established in 1929 to give relief to the poor and aged in the Borough of Newport, has a balance of £0.040 million at 31 March 2011 (£0.038 million on 31 March 2010).

	31 March 2011 £000s	31 March 2010 £000s
Trust Funds Etc	**142**	147
Cash in Safekeeping	**10**	19
Amenity Funds	**123**	70
Total	**275**	236

50. Authorisation of Accounts for Issue

The Strategic Director of Resources authorised the financial statements for issue on 30 June 2011.

THE COLLECTION FUND

		2010-11	2009-10
	£000	**£000**	£000
Income			
Council Tax (note 3)		**(67,480)**	(65,497)
Transfers from General Fund:-			
Council Tax Benefits	**(12,956)**		(12,672)
Contribution re: Discretionary Relief (business rates)	**(79)**		(84)
		(13,035)	(12,756)
Income collectable from business ratepayers (note 1)		**(29,149)**	(29,904)
Contribution towards previous year's Collection Fund deficit			
Isle of Wight Council	**(87)**		(115)
Hampshire Police Authority	**(10)**		(13)
		(97)	(128)
		(109,761)	(108,285)
Expenditure			
Isle of Wight Council Precept (note 3)		**72,568**	70,381
Police Precept		**8,068**	7,801
Business Rate:-			
Payment to National Pool	**28,837**		29,568
Costs of Collection	**251**		252
		29,088	29,820
Bad and doubtful debts:-			
Council Tax:			
Write-offs	**47**		67
Provisions	**(14)**		(11)
		33	56
Business Rates:			
Write-offs	**102**		141
Provisions	**38**		27
		140	168
		109,897	108,226

Collection Fund Balance at 31st March	**2010-11 £000**	2009-10 £000
Balance on Fund at start of year	**36**	95
(Surplus)/Deficit for Year	**136**	(59)
Balance on Fund Carried Forward	**172**	36

Notes to the Collection Fund

1. Business Rates (National Non-Domestic Rates)

The total non-domestic rateable value at 31 March 2011 was £90.481 million and the non-domestic rate multiplier for the year was 41.4p. A reduced multiplier of 40.7p was applicable where there was eligibility for Small Business Rate Relief. The gross yield for the year was £35.985 million and the net yield was £29.149 million. Several nationally defined adjustments and reliefs contribute towards this reduction as shown below:-

	£000	£000
Gross Non-domestic rate yield at 31 March 2011		35,985
Less:-		
Mandatory relief to charities etc	(1,670)	
Empty rate relief	(1,182)	
Small Business Rate relief	(2,166)	
Transitional relief	(1,776)	
Interest on refunds	(42)	
		(6,836)
Net Non-domestic rate yield at 31 March 2011		29,149

2. Council Tax

The following details the number of properties in each valuation band of the tax base for 2010-11:-

Band	Net Chargeable Dwellings	Relevant Proportion	Band D equivalents
Band A (disabled)	13	5/9	7
Band A	7,770	6/9	5,180
Band B	14,919	7/9	11,603
Band C	14,791	8/9	13,148
Band D	11,759	9/9	11,759
Band E	6,294	11/9	7,692
Band F	2,746	13/9	3,967
Band G	1,309	15/9	2,182
Band H	93	18/9	186
Total	**59,694**		**55,724**
Less reduction for bad debts & valuation changes (1%)			(557)
2010-11 Council Tax Base			**55,167**
Council Tax per Band D property (£)			1,289.80
Isle of Wight Council: Council Tax precept (£000)			71,154

Notes to the Collection Fund (continued)

Council Tax (continued)

3. Precepts made on the fund in 2010-11

	£000	£000
Isle of Wight Council: Council Tax requirement	71,154	
Share of Estimated Collection Fund deficit as 31 March 2010	(87)	
Isle of Wight Council: budget requirement		71,067
Hampshire Police Authority: Council Tax requirement	8,068	
Share of Estimated Collection Fund deficit as 31 March 2010	(10)	
Hampshire Police Authority: budget requirement		8,058
Parish & Town Council Precepts		1,414
Total precepts		**80,539**
Council Tax income analysis		
Council Tax gross debit	91,851	
Discounts	(8,659)	
Exemptions	(2,756)	
Net Debit		80,436
Council Tax Benefits		(12,956)
Council Tax income		**67,480**
Collection Fund deficit analysis		
Net debit (actual)	80,436	
Net debit (estimated)	80,539	
Reduction in net debit		(103)
Contribution to Allowance for Bad Debts		(33)
Collection Fund deficit brought forward		(36)
Collection Fund deficit carried forward		(172)

4. Reconciliation with Isle of Wight Council's Note 12 to the Comprehensive Income and Expenditure Statement and Balance Sheet

	Precepts/Demands £000	Share of 31 March 2011 surplus £000	Total 2010-11 £000	Share of Deficit carried forward £000
Isle of Wight Council (including Parish & Town Councils)	72,481	(123)	72,358	155
Hampshire Police Authority	8,068	(14)	8,054	17
Total	**80,549**	**(137)**	**80,412**	**172**

ISLE OF WIGHT COUNCIL FIREFIGHTERS' PENSION FUND

The Council, acting as a Fire and Rescue Authority, administers and pays fire-fighters' pensions. Employee and employer contributions are paid into the Pension Fund from which benefit payments are made. The scheme is an unfunded scheme, consequently the fund has no investment assets and is balanced to nil each year by the receipt of a top-up grant from the Department of Communities and Local Government (DCLG), or by paying over the surplus to the DCLG. The benefits payable from the fund are firefighters' pensions.

The Fund was established for authorities in England under the Firefighters' Pension Scheme (Amendment) (England) Order 2006 (SI 2006 No 1810). Employees' and employers' contribution levels are based on percentages of pensionable pay set nationally by the DCLG and are subject to triennial revaluation by the Government Actuary's Department.

Regular firefighters employed before 6 April 2006 were eligible for membership of the Firefighters' Pension Scheme (FPS). This scheme is now closed. A New Firefighters' Pension Scheme (NFPS) was introduced for regular and retained firefighters employed since 6 April 2006. These two schemes have been combined for the purpose of the Firefighters' Pension Fund Account and the Net Assets Statement.

Accounting Policies

1. As the Pension Fund has no investment assets and does not account for benefits payable in the future, there are no accounting policies that diverge from those set out in the main Statement of Accounting Policies.

2. The Net Assets Statement does not include liabilities to pay pensions and other benefits after the Balance Sheet date. The Council's liability calculated under IAS 19 is disclosed in Note 46 to the Financial Statements.

FIREFIGHTERS' PENSION FUND ACCOUNT

	2010-11		2009-10
	£000	**£000**	£000
Contributions receivable:			
Fire authority:			
Employers' contributions in relation to pensionable pay	**(496)**		(453)
Early retirements	**0**		0
Firefighters' contributions	**(280)**		(245)
		(776)	(698)
Transfers in from other schemes		**(212)**	0
Benefits payable:			
Pensions	**1,244**		1,252
Commutations and lump sum retirement benefits	**0**		470
Lump sum death benefits	**0**		60
		1,244	1,782
Payments to and on account of leavers:			
Transfers out to other authorities	**0**		2
Refunds of contributions	**0**		0
		0	2
Net amount payable for the year		**256**	1,086
Top-up grant payable by the Government		**(256)**	(1,086)
		0	0

NET ASSETS STATEMENT

	2010-11	2009-10
	£000	£000
Current Assets		
Debtors - Top-up receivable from the Government	**0**	701
Amount owing from General Fund	**174**	0
Current Liabilities		
Creditors - Top-up payable to the Government	**(174)**	0
Amount owing to General Fund	**0**	(701)
	0	0

ISLE OF WIGHT COUNCIL PENSION FUND

FUND ACCOUNT FOR YEAR ENDED 31 MARCH

	Notes	£000	2011 £000	2010 (restated) £000
Contributions and Benefits				
Contributions	4	**18,908**		18,260
Transfers in from other pension funds		**2,926**		3,927
Other Income	5	**7**		12
			21,841	22,199
Benefits	6	**14,114**		15,431
Payments to and on account of leavers:	7	**1,449**		1,439
Administrative and other expenses	8	**380**		384
			15,943	17,254
Net additions from dealings with members			**5,898**	4,945
Investment income	9		**7,226**	6,347
Profits & losses on disposal of investments and changes in value of investments	12		**21,473**	75,504
Taxes on income	10		**(364)**	(409)
Investment management expenses	11		**(1,050)**	(859)
Costs of transition to new fund managers			**-**	(677)
Net returns on investments			**27,285**	79,906
Net increase in the net assets available for benefits during the year			**33,183**	84,851
Opening net assets of the scheme (as restated)			**295,986**	211,135
Closing net assets of the scheme			**329,169**	295,986

ISLE OF WIGHT COUNCIL PENSION FUND

NET ASSETS STATEMENT AS AT 31 MARCH

	Notes	£000	2011 £000	2010 (restated) £000
Investments Assets				
Equities – UK		**113,753**		104,100
Equities – Global		**111,810**		100,647
Pooled Investment Vehicle – Property		**17,818**		15,127
Pooled Investment Vehicle – Bonds		**68,491**		63,852
Pooled Investment Vehicle – Unit Trusts		**9,353**		7,008
Cash with custodian		**4,671**		3,909
	12		**325,896**	294,643
Other Investment balances				
Pending security sales		**630**		8
Accrued dividends entitlement		**469**		322
			1,099	330
Investment Liabilities				
Pending security purchases		**(477)**		(322)
			(477)	(322)
Total Investment Assets at Bid price	12		**326,518**	294,651
Long term assets				
Other long term assets	13		**119**	594
Current assets				
Contributions from employers		**142**		136
Other current assets	14	**1,501**		536
Cash balances	15	**1,193**		311
			2,836	983
Current liabilities				
Other current liabilities	16		**(304)**	(242)
Current assets less current liabilities			**2,532**	741
Net assets of the scheme available to fund benefits at 31 March			**329,169**	295,986

In accordance with IAS19: Employee Benefits, the actuarial present value of promised retirement benefits is disclosed as a note to these accounts. See note 26.

ISLE OF WIGHT COUNCIL PENSION FUND

NOTES TO THE ACCOUNTS

1. Operation and Membership

The Fund is administered by the Council to provide retirement benefits for the majority of local government employees throughout the Isle of Wight, with the exception of Teachers and Fire-fighters. Membership of the Local Government Pension Scheme (LGPS) is available to most employees between the ages of 16 and 65.

Employees have a right to 'opt out' of the Scheme and rely on alternative schemes such as the State Earnings Related Scheme (SERPS) or a Personal Pension Scheme.

The LGPS is 'contracted out' of SERPS.

The Scheme is a 'final salary scheme' governed by statute and regulations. This means that benefits are defined by the LGPS do not depend on investment performance, but generally on the level of salary during the last 12 months before retirement and the length of total Local Government service during which contributions have been paid in to the Fund.

The government are currently considering the Hutton Review on public sector pensions which has made a number of proposals to the benefits, contribution rates of employees and operation of the LGPS. Decisions are expected in Autumn 2011.

In addition to the employees and councillors of the Isle of Wight Council, some organisations' employees are scheme members through "admitted body" status. They are shown below:

Cowes Harbour Commissioners
Yarmouth (IW) Harbour Commissioners
St Catherine's School Ltd
Trustees of Carisbrooke Castle Museum
IW Society for the Blind
South Wight Housing Association Ltd
Medina Housing Association Ltd
Riverside Centre Ltd
Osel Enterprises Ltd
Planet Ice (IOW) Ltd
Childrens Society
Spurgeons

In addition, the council has several 'scheduled bodies' whose employees participate in the fund. Scheduled bodies are bodies that are either statutorily obliged to join in the scheme or in the case of parish councils have a statutory right to do so:

Isle of Wight College
Wootton Bridge Parish Council
Yarmouth Town Council
Northwood Parish Council
Newport Parish Council
Chale Parish Council
Ryde Town Council

The number of contributors and the level of contributions for the year ended 31 March 2011 are shown below:

	Administering Authority	**Scheduled Bodies**	**Admitted Bodies**	**Total**
Number of Contributors	4,196	201	105	**4,502**
	£000	**£000**	**£000**	**£000**
Employees' Contributions	3,702	201	165	**4,068**
Employers' Contributions	12,630	595	591	**13,816**
Pensions paid	12,359	486	1,296	**14,114**

Employer contributions above do not include pension strain (capitalised pension) costs.

2. Accounting Policies

a) General Principles

The accounts have been prepared on a going concern basis, in accordance with the CIPFA Local Government SORP 2009-10 and the Financial Reports of Pension Schemes SORP (revised 2007).

They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the Scheme which takes account of such liabilities is dealt with in Notes 23 to 26.

As required by the Local Government Pension Scheme (Amendment) (No 3) Regulations 2007 a separate additional detailed Pension Fund Annual Report and Accounts has been produced.

b) Accruals of income and expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received, except that Benefits and Withholding tax are accounted for on a payments basis; and Transfer values to and from other pension funds are included in the accounts on the basis of the actual amounts received and paid out in the year.

In particular:

- Contributions and investment income are accounted for on an accruals basis
- Contributions due from the Council in respect of pension strain (capitalised pension) costs arising from redundancy are accounted for on an accruals basis. See note 3.
- Income from UK equities is accounted from on the date when the stocks are quotes ex dividend.
- Investment management fees payable to all fund managers are calculated on the performance of the portfolio chargeable on a quarterly basis. In addition, for two fund managers, an additional sum computed on performance against an agreed benchmark is payable. These fees are accounted for on an accruals basis.
- Monthly custody fees payable to JP Morgan Chase are accounted for on an accruals basis

c) Valuation of investments

Market valuations of listed securities are based on bid values; representing the price a third party would pay the fund in an arm's length transaction for the investment, at the reporting date. A fair value may be employed where that value cannot be ascertained or where it would be considered more appropriate. Fair value is the amount for which an asset can be exchanged, or a liability settled, between unrelated willing knowledgeable parties in an arm's length transaction. Investments shown in the Net Assets Statement are shown at market values.

d) Currency translation
Where the Fund has entered into a transaction in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the change in market value of the funds assets.

e) Prior period adjustments, changes in accounting policies and estimates and errors.
Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or when the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

f) Additional Voluntary Contributions
Additional Voluntary Contributions (AVCs) are invested separately for the benefit of individual members. To comply with the Pension SORP and Regulations 5(2)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 1998, AVCs are accounted for and disclosed separately from the net assets statement and fund account of the pension fund. See note 17 for details. AVC assets, and returns on these assets are based on figures supplied by the prudential Life and Pensions. Deductions are made from members' salaries during the year and invested on an accruals basis.

g) Events After the Balance Sheet Date
Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

h) Provisions, Contingent Liabilities and Contingent Assets
Provisions
Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and where a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could result eventually in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Fund Statement in the year that the Fund becomes aware of the obligation, and are measured at the best estimate, at the balance sheet date, of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made they are charged to the provision carried in the Net Assets statement. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

Contingent Liabilities
A contingent liability arises where an event has taken place that gives the fund a possible obligation, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the fund. Contingent liabilities also arise in circumstances where a provision would otherwise be made, but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Net Assets Statement but disclosed in a note to the accounts.

Contingent Assets
A contingent asset arises where an event has taken place that gives the authority a possible asset, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Net Assets Statement but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

3. Restatement of 2009-10 balances

The SORP requires that material adjustments applicable to prior years arising from changes to accounting policies should be accounted for by restating the comparative figures for the preceding period in the Statement of Accounts and notes and adjusting the opening Net Assets Statement figures for the cumulative effect.

Comparative figures for 2009-10 have been restated in respect of the following:-

- In previous years, contributions due from the Council in respect of pension strain (capitalised pension) costs arising from redundancy have been accounted for on a cash basis. As a result of new guidance issued by CIPFA, this treatment has been amended such that they are accounted for in the pension fund accounts on an accruals basis. This change in accounting treatment is as a result of the proper application of the scheme's accounting policies and accordingly has been applied retrospectively.

4. Contributions receivable

The total contributions receivable for the years ending 31 March were:

	2011	2010 (restated)
Employers	**£000**	£000
Normal	**13,816**	13,329
Special (Capitalisation)	**911**	731
Additional (deficit funding and cessations)	**112**	107
	14,839	14,167
Members		
Normal	**4014**	4,087
Additional	**55**	6
	4,069	4,093
Total Contributions Receivable	**18,908**	18,260

The special (capitalisation) contributions are payable to the pension fund over a period of up to 5 years to augment benefits for specific pension fund members on retirement.

Deficit funding was payable as required by the actuarial valuation dated 31 March 2007 by the South Wight Housing Association for 2010-11 £112 thousand (2009-10: £107 thousand).

From 1 April 2010 the bandings and employee contribution rates are set out in the following table (unchanged from 1 April 2009).

Band	Range (Annual full-time equivalent pay)	Contribution rate
1	£0 - £12,600	5.5%
2	More than £12,601 up to £14,700	5.8%
3	More than £14,701 up to £18,900	5.9%
4	More than £18,901 up to £31,500	6.5%
5	More than £31,501 up to £42,000	6.8%
6	More than £42,001 up to £78,700	7.2%
7	More than £78,700	7.5%

The contribution rate for each employee is based on their annual full-time equivalent pay as at 1 April, or commencement of employment if later, and that contribution rate is applicable throughout the year. The salary bandings are to be increased each April in line with rises in the Retail Prices Index.

If an employee has more than one employment, each employment will be assessed and treated separately.

Those employees paying the protected rate of 5% have been increased as follows

Year commencing	Contribution rate
1 April 2008	5.25%
1 April 2009	5.5%
1 April 2010	6.5%
1 April 2011 onwards	See general table above

If the protected contribution rate is higher than it would have been, but for the protection, the lower rate from the general table will apply.

The rate at which the employers contribute to the Fund is determined by the actuarial valuations of the Fund (See Notes 23 to 26).

5. Other income

	2011	2010
	£000	£000
Miscellaneous income	**7**	12
Contribution Equivalent Premiums	**-**	-
	7	12

Contribution Equivalent Premiums (CEPs) are sums relating to National Insurance Contributions payable when an employee leaves the pension fund without entitlement to benefits. Sums are held as a contingent asset and/or liability and these amounts remain so until the relevant employee requests a refund of contributions payable, a transfer is made to another pension fund or the employee returns to the employ of the Isle of Wight Council. See note 18.

6. Benefits payable

The total benefits payable for the years ending 31 March are shown below:

	2011 £000	2010 £000
Pensions		
Annual retirement pension	**8,903**	8,490
Pension increase on annual pension	**3,528**	3,605
	12,431	12,095
Commutation of pension and retirement benefit lump sum	**1,564**	2,991
Lump sum death benefits:		
Death Grants	**20**	214
Pension increase on lump sum	**99**	131
	1,683	3,336
Total Benefits Payable	**14,114**	15,431

7. Payments to and on account of leavers

The total of payments to and on account of leavers for the years ending 31 March is shown below:

	2011 £000	2010 £000
Refund of contributions	**2**	1
Transfers out to other pension funds	**1,447**	1,438
	1,449	1,439

8. Administrative expenses

The Isle of Wight Council administration costs represent the operating costs of the pension department plus recharges made by other departments for services provided to the pension fund.

	2011 £000	2010 £000
Administering authority	**321**	319
IT costs	**48**	48
Other expenses	**11**	17
	380	384

9. Investment Income

Investment income for the years ending 31 March was generated from the following sectors:

	2011 £000	2010 £000
Administration from fixed interest securities	**-**	35
Dividends from equities	**3,924**	5,762
Income from pooled investment vehicles:		
- Property	**765**	460
- Bonds	**2,511**	-
- Unit Trusts	**17**	58
Interest on cash deposits	**8**	10
Other	**1**	22
	7,226	6,347

10. Taxation

The Isle of Wight Council Pension Scheme is an Exempt Approved Scheme under Chapter 1 Part XIV of the Income and Corporation Taxes Act 1988.

Income arising from deposits or investments held for the purpose of the scheme is exempt from tax.

This exemption no longer entitles the pension fund to repayment of tax paid on UK dividends. The sum of UK withholding tax, which was irrecoverable in the year 2010-11, amounted to £364 thousand (2009-10: £409 thousand).

11. Investment management

	2011	2010
	£000	£000
Investment management expenses	**964**	753
Fees to appoint new investment managers	**-**	52
Actuary fees	**86**	54
	1,050	859

12. Investment Assets

The changes to the market value of investments in the year ended 31 March 2011 are shown below

	Value at 1 April 2010	Purchases at Cost	Sales Proceeds	Change in Market Value	**Value at 31 March 2011**
	£000	£000	£000	£000	**£000**
Equities					
UK Equities	104,100	40,644	(36,962)	5,971	**113,753**
Global Equities	100,647	444	-	10,719	**111,810**
Pooled Investment Vehicles					
Property	15,127	1,591	-	1,100	**17,818**
Bonds	63,852	3,218	-	1,421	**68,491**
Unit Trusts	7,008	219	(138)	2,264	**9,353**
	290,734	46,116	(37,100)	21,475	**321,225**
Cash with custodian	3,909	764	-	(2)	**4,671**
Total Investment Assets (excluding Other Balances and Investment Liabilities on the Net Assets Statement)	294,643	46,880	(37,100)	21,473	**325,896**
Other investment balances and liabilities	8			-	**622**
Total Investment Assets as per Net Assets Statement	294,651			21,473	**326,518**

The opening value of investments has been reanalysed from the 2009-10 accounts, in that Global Equities have been classified separately, rather than combined in Pooled Investment Vehicles – Unit Trusts.

An analysis of the market value at 31 March 2011 by industrial sector can be found in the Pension Fund Annual Report and Accounts.

At 31 March, the fund managers' portfolios were valued as follows:

	2011 £000	**%**	2010 £000	%
Schroder Investment Management - Bonds	**64,891**	**21.0**	63,852	21.7
Schroder Investment Management - UK Equities	**51,193**	**15.7**	45,321	15.4
Schroder Investment Management - Property	**17,818**	**5.5**	15,127	5.1
Newton Investment Management – Overseas Equities	**111,810**	**34.3**	100,647	34.1
Majedie Asset Management – UK Equities	**71,913**	**22.1**	65,787	22.4
JP Morgan – Cash	**4,671**	**1.4**	3,909	1.3

Analysis of market value, excluding cash, at 31 March 2011

	UK £000	Overseas £000	**Total £000**
Quoted	202,362	118,863	**321,225**
Unquoted	-	-	**-**
Total	202,362	118,863	**321,225**

Investments at 31 March 2011 which each exceeded 5% of the total market value of the fund

	£000	**%**	2010 %
Newton International Growth X Account	**111,810**	**34.24**	34.61
Schroder Institutional Sterling Broad Market X Account	**68,490**	**20.98**	21.96
Schroder Exempt Property Unit Trust	**17,818**	**5.46**	5.20

	31 March 2011	31 March 2010	**% Change**
FT Actuaries – All Share Index UK	**3,067.73**	2,910.19	5.41

13. Other long term assets

Other long term assets at 31 March include:

	2011 £000	2010 (restated) £000
Debtors		
Local authorities	**119**	594
	119	594

14. Other current assets

Other current assets at 31 March include:

	2011 £000	2010 (restated) £000
Debtors		
Central government bodies	**177**	21
Local authorities	**1,323**	515
Other entities and individuals	**1**	0
	1,501	536

15. Cash balances

Until 31 March 2011, surplus cash balances of the pension fund were held by the Isle of Wight Council under a co-mingling arrangement. Combined surplus funds were invested according to the Council's treasury management strategy, and interest earned on the pension fund's share was transferred at the year end.

From 1 April 2011, the pension fund has operated a separate bank account.

The balance outstanding at 31 March 2011 was paid by the Council to the pension fund on 1 April 2011.

	2011	2010
	£000	£000
Cash at bank with Administering Authority	**1,193**	311
	1,193	311

16. Other current liabilities

Other current assets at 31 March include:

	2011	2010
	£000	£000
Creditors		
Other entities and individuals	**304**	242
	304	242

17. Additional Voluntary Contributions (AVCs)

These are separately invested for the benefit of individual members.

Money purchase assets are allocated to provide benefits to individuals on whose behalf the contributions were paid, and in total £1,368 thousand were invested on this basis at 31 March 2011; these do not form a common pool of assets available for members generally. AVCs are excluded from the Fund Accounts in accordance with Regulation 5(2)(c) of the Pension Scheme (Management and Investments of Funds) Regulations 1998. Members receive an annual statement confirming the contributions paid on their behalf and the value of their money purchase rights.

The Contributions can be made via the Isle of Wight Council to Prudential Life and Pensions to purchase enhanced pension benefits and in the case of the Prudential, term life cover.

During 2010-11 AVCs of £179 thousand were separately invested with Prudential Life and Pensions. Of this amount, £2.7 thousand was for the purchase of death in service cover, no value accrues on death cover; this sum is not included in the statement below.

	Prudential Deposit	Prudential with Profits	Prudential Discretionary	**Total**
	£000	£000	£000	**£000**
Opening Value 1 April 2010	163	912	164	**1,239**
Purchase of Investments	81	89	6	**176**
Returns on Investments	1	34	13	**48**
Change in Market Value (Realised and Unrealised)	(37)	(58)	-	**(95)**
Closing Value 31 March 2011	**208**	**977**	**183**	**1,368**

18. Contingent Assets and Liabilities

At 31 March 2010 there were contingencies relating to Contribution Equivalent Premiums (CEPs) amounting to a net sum of £142 thousand due to the Pension Fund. Assets amounted to £188 thousand and liabilities totalled £46 thousand. The sums do not form part of the net assets of the fund. Refunds and payments will only be made on application by the employee.

In 2006 a decision was taken by the Investment Panel to join in a Class Action against the HMRC to recover tax credits on overseas dividends. A sum of £880 thousand has been estimated as the possible benefit to the pension fund. This case is ongoing. The sums do not form part of the net assets of the fund.

19. Related Party Transactions

No Members or Chief Officers have disclosed any Related Party Transactions with the Pension Fund, other than by virtue of normal membership.

During the financial year, the pension fund had an average balance of £373 thousand of excess cash invested with the Isle of Wight Council and the pension fund received £1.2 thousand as interest on this investment. See note 15.

The Isle of Wight Council provided an administration service to the pension fund in the year for which the fund paid a sum of £380 thousand. See note 8.

Council members named in note 27 form the Pension Fund Committee as trustees.

20. Capital commitments

There were no capital commitments as at 31 March 2011 (2010: nil)

21. Investments Transaction Costs

Transaction costs payable by the pension fund investment managers to brokers in 2010-11

	£
Purchases	51,955
Sales	47,544
Total	99,499

22. Post Balance Sheet Events

As part of the Council's budget strategy 2011, a significant number of redundancies have been announced.

- For those staff made redundant before 31 March 2011, pension strain (capitalised pension) contributions have been charged to these accounts, although payment may not necessarily have been made to the Fund for those costs. At 31 March 2011, the Isle of Wight Council owes the Pension Fund £982 thousand, which is included in Other Current Assets (see note 14 above)
- For those staff issued with redundancy notices before 31 March 2011, pension strain (capitalised pension) contributions have been accrued in these accounts (see note 14 above).
- No provision has been made in these accounts for pension strain contributions in respect of those staff either issued with redundancy notices after 31 March 2011 or likely to be made redundant after that date. Provision for these pension strain costs has been made in the Isle of Wight Council accounts for the year ended 31 March 2011, to the value of £517 thousand.

23. Actuarial position of the fund

The funds most recent triennial actuarial valuation was undertaken by its independent actuarial advisors Hymans Robertson and based on the position as at 31 March 2010. The results of this valuation will be implemented from 1 April 2011.

The position at March 2010 showed an improvement in the funding position relative to the previous valuation, at March 2007. This latest valuation shows that the assets of the Fund equated to 75.3% compared to the previous valuation of 80.2%.

24. Actuarial Valuation 31 March 2007

The last valuation relevant to the year ended 31 March 2011 was completed at 31 March 2007. This valuation has now been superseded by the 2010 valuation; however key assumptions relevant to this valuation, and hence these accounts, are included in this report.

25. Actuarial Valuation 31 March 2010

This valuation was carried out to calculate employer's contribution rates for the years 2011-12, 2012-13 and 2013-14.

Statement provided by the actuary

As required by regulation 77 of the Local Government Pension Scheme Regulations 1997, the last actuarial valuation of the Isle of Wight Council Pension Fund's assets and liabilities was carried out as at 31 March 2010.

Security of Prospective Rights

In the actuary's opinion, the resources of the Fund are likely, in the normal course of events, to meet the liabilities of the Fund as required by the Regulations. In giving this opinion it has been assumed that the following amounts will be paid to the Fund.

- Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997 until 31 March 2011, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007.
- Contributions by employers in accordance with the Rates and Adjustments certificate dated 23 March 2008 for the year ending 31 March 2011. Thereafter for the three years commencing 1 April 2011 as specified in the Rates and Adjustments certificate dated 18 March 2011 (see below).

Summary of Methods and Assumptions Used

Full details of the method and assumptions are described in the actuary's valuation report dated 18 March 2011 and the Rates and Adjustments certificate contained therein.
Copies of these documents are available on request from the Finance Department of the Isle of Wight Council.

The actuary's opinion on the security of the prospective rights is based on:

- the projected unit valuation method where there is an expectation that new employees will be allowed to an employer; or
- the attained age valuation method for employers who are closed to new entrants.

These methods assess the cost of benefits accruing to existing members during

- the year following the valuation; or
- the remaining working lifetime, respectively

allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the assessed value of assets.

Valuation of Assets

A "market related" valuation method has been used. This is consistent with the methodology adopted at the 2007 valuation.

The 2010 valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £295 million, were sufficient to meet approximately 75.3% of the liabilities accrued to that date. There was a shortfall of assets to the assessed cost of members' benefits of £97 million.

Valuation assumptions

The key financial assumptions adopted at the 2010 valuation are set out in the table below, with 2007 assumptions shown in brackets.

Assumption	Derivation	Rate at 31 March 2010 (31 March 2007)	
		Nominal	Real
Price Inflation (CPI) (2007: RPI)	Market expectation of long term future inflation as measured by the difference between yields on fixed and index linked Government bonds as at the valuation date, less 0.5% p.a.	3.5% (2007: 3.2%)	- (2007: -)
Pay Increases*	CPI plus 2.0% p.a. (2007: 1.5% p.a. in excess of price inflation)	5.3% (2007: 4.7%)	2.0% (2007: 1.5%)
Gilt Based Discount Rate	The yield on fixed interest (nominal) and index linked (real) Government bonds	4.5% (2007: 4.5%)	1.2% (2007: 1.3%)
Funding basis discount rate	"Gilt based" discount rate plus an asset out-performance assumption of 1.6% p.a.	6.1% (2007: 6.1%)	2.8% (2007: 2.9%)

* 1% p.a. for 2010-11 and 2011-12, reverting to 5.3% thereafter. Plus an allowance for promotional pay increases.

Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:-

	Minimum Contributions for the Year Ending 31 March			
Employer Name	**2011**	**2012**	**2013**	**2014**
	% of pay	**% of pay**	**% of pay**	**% of pay**
Isle of Wight Council	22.0	22.0	22.0	22.0
Isle of Wight College (from 1 August)	18.7	20.2	21.7	22.8
Spectrum Housing Group (Medina HA)	23.3	24.6	26.6	28.6
Southern Housing Group (South Wight HA)	18.7	20.8	20.8	20.8
Yarmouth Harbour Commissioners	28.5 *	21.6	21.6	21.6
Cowes Harbour Commissioners	21.9 *	24.3	24.3	24.3
St Catherine's School Ltd	33.3 *	40.0	45.0	50.6
IOW Society for the Blind	33.3 *	45.1	45.1	45.1
Riverside Centre Ltd	18.5	15.9	15.9	15.9
Trustees of Carisbrooke Castle Museum	23.1 *	25.0	25.0	25.0
Planet Ice (IOW) Ltd	12.2	15.1	15.1	15.1
Osel Enterprises Ltd	18.5	22.0	22.0	22.0

* During 2008-09, three of the admitted bodies requested that they should no longer be considered with others in a pool, but should be considered as separate employers for the purposes of contribution rates. The rates shown above for the year ended 31 March 2011 are the revised rates.

In addition, certain employers make a lump sum contribution:

	Minimum Contributions for the Year Ending 31 March			
Employer Name	**2011**	**2012**	**2013**	**2014**
	Lump sum	**Lump sum**	**Lump sum**	**Lump sum**
	£000	**£000**	**£000**	**£000**
Southern Housing Group (South Wight HA)	112	132	132	132
Yarmouth Harbour Commissioners	0	42	44	47

The next actuarial valuation

The next valuation of the Fund will be carried out as at 31 March 2013 and the results known later that year. This valuation will allow for the experience of the Fund from 31 March 2010 and up-to-date financial assumptions at that time.

The actuary is aware that some employers may pay contributions in excess of the minimum amounts shown in the Rates and Adjustments certificate. These extra payments will be taken into account in the 2013 valuation and will act to reduce the contributions that would otherwise have been payable.

26. Actuarial present value of promised retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2010-11 requires administering authorities of LGPS funds that prepare pension fund account to disclose what IAS26: Accounting and Reporting by Retirement Benefit Plans refers to as the actuarial present value of promised retirement benefits. This change is one of many which are being adopted by employers reporting under CIPFA guidance in the financial year 2010-11.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19: Employee benefits. The Isle of Wight Pension Fund as chosen option 2 – disclosure as a note to the accounts – for the disclosure of this information.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

The following information has been provided by Hymans Robertson, in a report dated 11 May 2011.

Assumptions

The assumptions used are those adopted for the Administering Authority's FRS17/IAS19 reports are each year end as required by the Code of Practice.

Financial Assumptions

	31 March 2011	**31 March 2010**
	% p.a.	**% p.a.**
Inflation / Pension Increase rate	2.8%	3.8%
Salary Increase Rate	5.1%	5.3%
Discount Rate	5.5%	5.5%

Salary increases are 1% p.a. nominal for the year to 31 March 2011 and the year to 31 March 2012 reverting to 5.2% thereafter.

Mortality

As discussed in the IAS19 generic main report, life expectancy in base don the SAPS year of birth tables with improvements from 2007 in line with the Medium Cohort and a 1% p.a. underpin. Mortality loadings were applied to the SAPS tables based on membership class. Based on these assumptions, the average future life expectancies at age 65 are summarised below.

	Males	**Females**
Current Pensioners	22.9 years	25.7 years
Future Pensioners	24.9 years	27.7 years

Future pensioners are assumed to be currently aged 45.

Historic mortality
Life expectancies for the below year ends are based on the PFA92 and PMA92 tables. The allowance for future life expectancies are shown in the table below.

	Prospective Pensioners	Pensioners
31 March 2010	Year of birth, medium cohort and 1% p.a. minimum improvements from 2007	Year of birth, medium cohort and 1% p.a. minimum improvements from 2007

Age ratings and loadings are applied to the above tables based on membership profile.

Commutation
An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash 2008 service.

Balance Sheet

	31 March 2011	**31 March 2010**
	£m	**£m**
Present Value of Promised Retirement Benefits	433	491

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2011 comprises £183 million in respect of employee members, £64 million in respect of deferred pensioners and £186 million in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis of a cessation basis).

27. Trustees Report 2010-11

The Trustees of the Pension Fund are the members for the time being of the Pension Fund Committee, who at 31 March 2011 were Councillors Abraham, Barry, Bingham, Bulwer, Churchman, Mazillius and Whittle. The Committee is advised by the Strategic Director of Resources and Hymans Robertson, the fund's actuaries. In addition, non-voting representatives from the admitted bodies and the staff union attend the Committee.

Investment Performance
The net assets of the fund at 31 March 2011 were £328.1 million, a rise of 11.3% on the 31 March 2010 valuation of £294.8 million. This reflects the continuing recovery of the world's stock markets.

Funding Level
The Fund's last triennial actuarial valuation was undertaken at 31 March 2010, showing a funding level of 75.3%, compared to 80.2% at the previous valuation at 31 March 2007. The results of this latest valuation, in terms of revised contribution rates, will be implemented with effect from April 2011.

Governance
The Committee continues to keep its governance arrangements under review. It has agreed that the Committee needs to ensure that it considers all aspects of the Fund's performance, not just its asset performance. This acknowledgement has been formalised by a change to the Committee's terms of reference and including a wider remit in the Committee's forward plan.

In 2010-11 the Committee received reports on, and agreed, the Statement of Investment Principles, Funding Strategy Statement and arrangements for a separate bank account; and considered the results of the triennial actuarial valuation and the Hutton review on Public Sector Pensions.

In addition, the Committee continues to receive presentations from its Investment Managers on the Pension Fund performance as well as performance benchmarking and advice from its independent adviser, Hymans Robertson.

28. Additional Statements published in the Pension Fund Annual Report and Accounts

- Statement of Investment Principles of the Isle of Wight Council Pension Fund
- Funding Strategy Statement of the Isle of Wight Council Pension Fund